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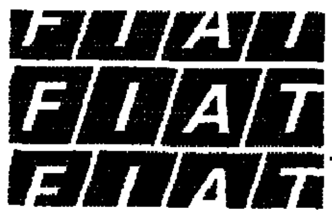

Fiat's ethics code
Does it go far enough?
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Southern France
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FINANCIAL TIMES

Europe's Business Newspaper THURSDAY MAY 13 1993 D8523A

US and China clash over linking trade to human rights

The US is set to impose conditions tied to China's human rights record on the import of billions of dollars of Chinese goods, risking a possible deterioration of relations with Beijing.

Winston Lord, the assistant secretary of state, told Chinese officials the administration was likely to attach conditions to renewal of China's Most Favoured Nation trade status, which guarantees privileged access to the vast American market. Page 16; *US trade policy makes a noisy debut, Page 6; Dalai Lama calls for dialogue, Page 4*

UK politicians hijack Danish referendum: Denmark's Maastricht referendum contest was hijacked yesterday by the British, when UK politicians held forth in the ante-chambers of the Folketing (parliament). Among them was Lord Tebbit (left), former Conservative cabinet minister and scourge of the Maastricht treaty on European political union, who was invited to Copenhagen by the June Movement, campaigning for another Danish "No" vote. Page 16; *Punks and pensioners find common cause, Page 3*

Huge support for E German strikes: IG Metall, Germany's engineering union, received huge backing for further strike action in eastern Germany after balloting metal and electrical workers in three of the region's states. More than 82 per cent of the union's 72,000-strong membership in the east voted for action for higher pay. Page 16; *Industry fury at Bonn social levy, Page 2*

UK CD prices criticised: A UK parliamentary committee called for the dealer price of compact discs to be cut by at least £2 ($3) and for an inquiry *into restrictions on CD imports. Page 16; Picking up bad vibrations, Page 15*

Russian state funds tied to reform: State support in Russia is to concentrate on companies, farms and even regions which show themselves willing and able to reform. Page 2

Czechs reverse shares decision: The Czech government is to allow the transfer of shares in privatised Czech companies to Slovak investors, reversing an earlier controversial decision. Page 2

Brussels clears aircraft link-up: The European Commission approved a German-Dutch alliance to build regional and commuter aircraft, 18 months after rejecting the proposed Franco-Italian takeover of de Havilland, the Canadian aircraft manufacturer, in the same sector. Page 3

Researchers develop "eye": An artificial *eye which recognises shapes and patterns in* a way which mimics human sight has been developed in Southern Ireland by researchers from Hitachi of Japan and Trinity College Dublin. Page 4

Nestlé, the world's largest foods company, is arranging for US institutional investors to participate *in its imminent rights issue, in a pioneering* initiative that could be followed by other large European companies. Page 17

Imperial Chemical Industries set the terms of its demerger and fund-raising, pricing the rights issue for its Zeneca bioscience offshoot at 600p each. Page 17; *Lex, Page 16*

Anglo American Corporation, South Africa's largest company, said it would not be following the policy announced on Tuesday by Gencor, the country's second largest mining house, of unbundling into smaller units. Page 17

Body Shop International: Annual pre-tax profits from the natural toiletries and cosmetics group fell 15 per cent from £25.3m ($38.8m) to £21.5m. Page 24; *Time to change the window display, Page 24; Lex, Page 16*

Eastman Kodak's chairman forecast record 1994 earnings per share but failed to stave off a protest vote by dissatisfied shareholders at the annual meeting. Page 17

Silvio Berlusconi, the Italian media magnate, is expected to announce the flotation of the Silvio *Berlusconi Editore publishing* operation to try to raise cash for his Fininvest holding company. Page 19

Scientist donates malaria vaccine: A Colombian scientist who has developed the first vaccine against malaria said he had agreed to transfer all legal rights for the vaccine to the World Health Organisation, the UN agency.

■ STOCK MARKET INDICES		
FT-SE 100:	2869.8	(+24.7)
Yield	3.96	
FT-SE Eurotrack 100	1148.86	(+7.62)
FT-A All-Share	1407.78	(+0.7%)
Nikkei	20,615.29	(-325.17)
New York: lunchtime		
Dow Jones Ind Ave	3471.79	(+3.04)
S&P Composite	444.22	(-0.14)

■ US LUNCHTIME RATES	
Federal Funds:	$3\frac{3}{16}$%
3-mo Treas Bills: Yld	2.952%
Long Bond	$103\frac{7}{32}$
Yield	6.868%

■ LONDON MONEY		
3-mo Interbank	6%	(same)
Liffe long gilt future:	Jun $104\frac{7}{32}$	(Jun $103\frac{25}{32}$)

■ NORTH SEA OIL (Argus)		
Brent 15-day June	$19.07	(19.105)

■ Gold		
New York Comex (June)	$361.8	(357.3)
London	$357.15	(355.45)

■ STERLING		
New York lunchtime:		
$	1.5315	
London:		
$	1.5335	(1.542)
DM	2.47	(2.48)
FFr	8.33	(8.3625)
SFr	2.2425	(2.25)
Y	171.0	(171.5)
£ Index	80.2	(80.4)

■ DOLLAR		
New York lunchtime:		
DM	1.61305	
FFr	5.4385	
SFr	1.46315	
Y	111.655	
London:		
DM	1.6115	(1.6085)
FFr	5.4325	(5.4225)
SFr	1.462	(1.4585)
Y	111.55	(111.15)
$ Index	64.3	(64.2)
Tokyo close Y 111.78		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Hungary	Ft172	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	Iceland	IKr180	Neth	Fl 3.75	Slovak Rp	KSL45		
Croatia	SLT220	India	Rs40	Nigeria	Naira45	Slovenia	HRD5700		
Cyprus	C£1.00	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta200		
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20		
Egypt	E£4.50	Korea	Won 2500	Philippines	Pso45	Syria	S£50.00		
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
France	FFr9.00	Lebanon	US$1.25	Portugal	Es215	Turkey	L7000	UAE	Dh11.00

EC launches study into crisis over employment

By Lionel Barber in Brussels

THE EUROPEAN Commission has opened a wide-ranging study of unemployment in the EC in response to fears that Europe is losing the battle to remain competitive with the US and Asia.

The study is expected to tackle the politically sensitive question of whether Europe's welfare state is indirectly contributing to low growth, rising unemployment and the failure to create new jobs.

Mr Jacques Delors, commission president, has ordered "dozens of papers" on Europe's unemployment crisis, according to Community officials involved. The aim is to produce a report at the EC summit in Copenhagen next month, along with the EC's modest "growth initiative".

More than 17m people are out of work in the EC. Mr Delors' study into the causes of unemployment and his search for potential remedies reflects his concern about political instability in Europe, but also a nagging worry about the EC's long-term competitiveness.

The EC created 9.4m net new jobs between 1983 and 1990, partly in anticipation of the 1992 single market. But since 1990 it has lost a net 1.4m jobs. The short-term economic outlook is bleak, with the EC unlikely to grow more than 1 per cent this year and probably less than 1.5 per cent next year.

Senior EC officials yesterday described the Delors study as a "medium to long-term" study of the EC economy, leaving no areas untouched.

The areas it will attempt to assess include:

- the competitive impact of floating exchange rates in the US and the UK
- the potential counterweight of a future single European currency
- trade practices in the US and Asia
- industrial policy
- the use of applied research as a tool for generating jobs
- the role of the welfare state in Europe.

The most controversial area is the role of welfare state. Mr Delors has left colleagues in little doubt about his support for social policy; but his call for fresh thinking means the study is likely to tackle the automatic right to social security and the commitment to minimum wages.

para

One issue intriguing Brussels officials is whether Mr Delors' intellectual curiosity will lead him to re-examine the social chapter of the Maastricht treaty *which strengthens workers rights* and is the subject of controversy in the UK. The ruling Conservative government won a treaty opt-out on the social chapter, arguing that it would hurt UK companies' competitiveness.

Mr Delors has already won support from Sir Leon Brittan in tackling the issue of European competitiveness. In an interview, Sir Leon said German industry's complaints about the costs of employment in western Europe showed the issue was "creeping up the agenda". The Commission could play an important role in opening public debate, without necessarily legislating, he said.

Commission officials stressed yesterday that the Delors study is an academic exercise only, and there is no desire to create a US-style society in Europe, with minimum social provisions. "But we do recognise that there may be problems with excessive non-wage costs, particularly among the lower paid," said one official.

The Delors study was commissioned a few weeks ago amid concern about management weak*nesses in DG-5, the social* policy directorate. Mr Sigismundo Crespo, the Spanish director-general was unable to communicate in English with his boss, Mr Flynn, the Irish commissioner. Mr Crespo resigned last week.

But Brussels officials said another factor in Mr Delors' thinking was concern about the direction of a separate study on the labour market ordered by the conservative-minded Mr Padraig Flynn, the Irish commissioner.

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- ■ German strikes win wide support
- ■ US-China trade row
- ■ Britons hijack Danish referendum

GEC and Ericsson drawn into illicit funding scandal

Head of Italy's Iri arrested on corruption charges

By Robert Graham in Rome

MR Franco Nobili, chairman of Iri, Italy's biggest state holding company, was yesterday arrested by Milan magistrates and transferred to the city's San Vittore jail on charges of corruption.

Mr Nobili, 62, holds the most prominent position in the Italian public sector. Until now the Iri group has only figured in a minor way in the 15-month long investigations by Milan magistrates into illicit funding of the political parties, mainly through kick-backs paid on contracts.

The Italian subsidiaries of two foreign companies operating in the lucrative telecommunications sector – Sweden's Ericsson and the UK's GEC – also had their chief executives arrested on charges of alleged corruption. The arrests relate to a developing line of inquiry by Milan magistrates into kickbacks allegedly paid for a share in Italy's large telecommunications investments.

Mr Nobili has been Iri chairman since 1990, having been appointed to this post, traditionally controlled by the Christian Democrat Party, by his friend Mr Giulio Andreotti, who was then prime minister.

The operations of Iri are unlikely to be affected since Mr Nobili was effectively forced into a representational role last August when Iri's status was changed to a joint stock company. The running of Iri and strategic planning has been in the hands of Mr Michele Tedeschi, the managing director.

Within the past two months the management of the country's three main state-run industrial groups have all become implicated in the corruption scandals.

In March, Mr Gabriele Cagliari, the chairman of ENI, the state oil concern, was arrested along with the heads of the group's four main subsidiaries on charges of allegedly falsifying accounts. Since then a complex picture of illicit funding of political parties, has emerged from ENI companies, believed to have been worth L27bn ($17.6m) since 1989. At the same time, Mr Mauro Leone, deputy chairman of Efim, the industrial holding placed in liquidation last July, was arrested on charges of alleged fraud.

The allegations of corruption in Mr Nobili's case are understood to refer to his time as Iri chairman and during 1978-89 when he ran Cogefar, one of the country's leading construction companies.

The magistrates are reportedly mainly concerned with his activities in Cogefar, prior to its merger with Fiat's Impresit in 1989. The alleged payment of bribes by Cogefar-Impresit to obtain contracts has been the main account on which magistrates have been questioning Fiat executives over the past year.

Mr Nobili's arrest is linked to questioning of Mr Enzo Papi, former managing director of Cogefar-Impresit, arrested last May and held for 55 days before admitting to bribes.

Picture Trevor Humphries

Franco Nobili, chairman of Iri, the biggest Italian state holding company, who was arrested yesterday

Europe tries to heal Bosnia rift

By Robert Mauthner, Diplomatic Editor, in London

EUROPEAN governments yesterday attempted to defuse a rift with the US over what action to take in Bosnia by pointing out that differences between allies on such complex issues were a nor*mal hazard of transatlantic* policy co-ordination.

Mr Douglas Hurd, the British foreign secretary, said in parliament that he saw no purpose in "exchanging accusations across the Atlantic" and cited several areas of agreement.

In particular, discussions were continuing on possible military measures against the Bosnian Serbs if they persisted in their refusal to endorse a United Nations and European Community-backed peace plan, he said.

Though not mentioning him by name, Mr Hurd was clearly referring to highly critical remarks made by Senator Joseph Biden, a member of the US Senate foreign relations committee, when he told a questioner in the House of Commons: "I don't think some of those remarks would have been made if those concerned had actually seen the exchanges which have taken place between the allies in recent days, or if they had understood the nature of the effort and the risk which some of us, including this country [the UK], are actually making in Bosnia." Mr Biden had accused European governments on Tuesday of "bigotry and hypocrisy" for resisting US efforts to save Bosnian Moslems from what he called "fascist thuggery" on the part of the Bosnian Serbs.

In reply, British and French officials have pointed out that the lives of their peacekeeping troops in Bosnia would be endangered if their neutral status was undermined by air strikes against Bosnian Serb positions or a lifting of the UN arms embargo in favour of the Bosnian Moslems. Since the US did not have any ground forces in Bosnia, Washington would not be running a similar risk.

A senior British government *official had earlier defended the* right of European countries to express reservations and doubts about US policy options.

Clinton's objective, Page 2

Britain likely to retaliate over California unitary tax

By George Graham in Washington

THE BRITISH government is expected to announce today that it will retaliate against US companies if the long-running dispute over California's unitary taxation system is not resolved by the end of the year.

Mr Norman Lamont, chancellor of the exchequer, is expected to announce that the UK will cancel a tax break given to US companies on the dividends they receive *from their British* subsidiaries. This would cost them about £250m ($385m) a year.

The retaliation would come the day before the US Supreme Court is expected to decide whether to hear the case brought by Barclays Bank, the UK clearing bank, against California's unitary tax system.

Under this system, California may assess tax on a proportion of the worldwide profits of a group, calculated by the size of its payroll, sales and property in the state, instead of only taxing profits actually made in the state.

Foreign businesses say this conflicts with the method used in almost all other countries, and *exposes them to paying tax twice* on the same profits.

The UK passed legislation authorising the government to retaliate against US companies in 1986, but that law has never yet been implemented. Although the UK Treasury had wanted to wait and see if the Supreme Court settled the matter in Barclays' favour, Mr Lamont and Mr John Major, the prime minister, have been heavily lobbied by backbench members of parliament and by British companies such as Guinness, Smith Kline Beecham and BAT, who argued for immediate retaliation.

The European Community has also threatened retaliation, although any EC action is likely to be much later. The UK Treasury declined to comment.

The Barclays case has been making its way through the courts for more than 10 years, but the *Supreme Court is* Barclays' last chance of reversing a ruling by the California supreme court in favour of the state.

Previous US administrations have sided with Barclays against California. But President Bill Clinton earlier this month decided not to file a brief on Barclays' side, motivated principally by worries about the possible financial loss to the almost bankrupt California treasury.

California estimates that if it *lost the suit, it would have to* refund about $520m of tax and interest and would miss out on another $350m of taxes it has not yet collected. Another $3.1bn could be at stake if it also lost a connected suit brought by Colgate-Palmolive. For Barclays, the case involves over $30m.

The cancellation of advance corporation tax credits to US companies – which might be backdated two years – would raise the tax rate paid by their UK subsidiaries from 28 per cent to the standard 33 per cent.

UK law gives the government the option of targeting the retaliation at all US companies with a *taxpaying presence in California* (virtually all US groups), or to those with a California base or those with 7½ per cent of property, payroll and sales there.

CONTENTS

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Yeltsin tries to speed new constitution

By John Lloyd in Moscow

RUSSIAN President Boris Yeltsin yesterday signed a decree calling for a special assembly of the Council of the Federation for June 5 to "consider and finalise preparation" of a new Russian constitution.

Mr Yeltsin's plan is that the council would adopt a new constitution, thereby bypassing the federal parliament. Under the present amended Soviet-era constitution, it is parliament's responsibility to pass any new constitution.

The council will be composed of two representatives from each of Russia's 88 regions and autonomous republics as well as representatives of the president and parliament.

Simultaneously yesterday the Russian parliament launched its own timetable for a new constitution.

The announcements marked the beginning of a process certain to divide the country between the conservative parliament and its regional allies on the one side and President Yeltsin and his supporters on the other.

Mr Ruslan Khasbulatov, parliamentary Speaker and Mr Vitaly Zorkin, chairman of the constitution, both told meetings of the regional council representatives that Mr Yeltsin would be guilty of "a crime" if he pressed ahead with his plans to adopt a new constitution.

In a speech of pointed ferocity, Mr Khasbulatov said that Mr Yeltsin's "political games" would cause the disintegration of the Russian federation.

He also warned the regional leaders – whom Mr Yeltsin has been wooing – that "those high officials want to make you all equally guilty in this." From a less predictably hostile position, Mr Oleg Rumyantsev, a centrist deputy who is the secretary of the parliament's constitutional committee, warned of the dangers to democracy from Mr Yeltsin's version of the constitution, which he described as ushering in a "super presidential regime."

The parliament's version, which Mr Rumyantsev's committee drew up and which called for the establishment of a parliamentary republic with a relatively constrained president, is to be discussed throughout this month with the elected regional and republican councils – with a final version due to be approved on July 6.

The adoption of Mr Yeltsin's constitution would mean immediate elections, since it abolishes the present parliament which is composed of a Congress of Peoples' Deputies and a Supreme Soviet in favour of a bi-cameral assembly with the Council of the Federation of the Upper House and a State Duma – the name taken from the pre-revolutionary Russian assembly – as the lower house.

This wooing of the regions will be largely based on promises to increase their economic autonomy and lighten their tax and other obligations.

Mr Yeltsin's control of the government and of the armed forces and security ministries give him the edge in the struggle against his conservative opponents and there already appears to be signs that the administrative leaders, and even some local councils, are inclining towards him.

Clinton seeks to contain Bosnian war

By George Graham in Washington

PRESIDENT Bill Clinton yesterday promised "some more" steps to encourage peace in the Bosnian civil war and to help confine the conflict.

However, he appears to have gone back to the drawing board in his efforts to find a Bosnian policy, placing much more emphasis on measures to prevent the violence spreading beyond Bosnia.

Among the measures Mr Clinton is considering is sending US troops to join United Nations observers in Macedonia, as a safeguard against the conflict spilling over into other areas of the former Yugoslavia. However, White House officials said yesterday that no decision was imminent.

The president is also contemplating placing monitors along the border between Bosnia and Serbia to see if the Serbian government fulfils its promise to cut off all but humanitarian supplies to the Bosnian Serbs.

Last week, Clinton administration officials were arguing for an end to the UN arms embargo which has hampered the Bosnian Moslems in their efforts to defend themselves against the much better-armed Bosnian Serbs.

They were also pressing for the embargo coupled with a short campaign of air strikes to hold the Serbian militias in check until the Moslems could be rearmed.

Although US officials deny there has been any change in that policy, there has been a shift of emphasis, in recognition of the reluctance of several European allies to see the arms embargo lifted.

At the least, a policy of containment is now twinned with the goal of ending the violence within Bosnia.

Those who have criticised the Europeans include Senator Richard Lugar, the senior foreign policy spokesman for the Republican opposition, and, more shrilly, Senator Joseph Biden, the Democratic chairman of a Senate subcommittee on European affairs.

Senator Lugar said: "We really do want the British and the French to be on board. We want support from the Germans and the Russians and other Europeans who really ought to be with us on this situation and are not quite there yet.

"I see the president moving steadily and trying to move our allies steadily, and the people who will need to vote for Security Council authorisation of force steadily," Mr Lugar added.

Others acknowledge, however, that doubts remain within the administration, and still more so within the Congress, over what policy to pursue.

While some congressional leaders fiercely advocate military intervention, the rank-and-file of both parties in Congress are still deeply reluctant to become embroiled in a war that could come to resemble Vietnam.

Mr Clinton said in a radio interview yesterday morning that he wanted "to make sure that there is no Vietnam", but said that wanting to avoid the mistakes made in Vietnam did not mean that the US should do nothing.

"The big difference from the point of view of the average American is I have made it very clear that the United States, unlike in Vietnam, is not about to act alone," Mr Clinton said.

Croat troops fighting street by street in Mostar for a fourth straight day yesterday against Moslem-led government soldiers

Street fighters snub peace plea

By Laura Silber in Belgrade and agencies in Mostar

HEAVY fighting continued yesterday between Croatian forces and the Moslem-led Bosnian army in the south-western Bosnian city of Mostar, but there were reports that a ceasefire had been agreed and would come into force within the next 24 hours.

Moslem-controlled Bosnian radio reported that a truce had been signed under which troops from both sides were to return to their barracks by noon today. A later report said hand-to-hand fighting was still going on in Mostar and fires were burning in the city.

Croat troops have been trying for four days to break a Moslem foothold on the west side of the Neretva River, which bisects Mostar and which Bosnian Croats want to mark as their eastern-most boundary. The Croatian Defence Council (HVO) was holding more than 1,300 Moslem civilians at the airport building outside Mostar, after forcing them from their homes, UN officials said yesterday.

Meanwhile, General Philippe Morillon, the UN military commander, met leaders of the Bosnian army and Bosnian Croat forces in Medjugorje, about 20 km south-west of Mostar. He was also to meet Bosnian Croat leader, Mr Mate Boban. In eastern Bosnia, the UN evacuated the first 22 of about 200 wounded from Zepa, one of six "safe areas" declared by the UN Security Council last week, after Serbs had delayed the departure of UN helicopters.

Mr Radovan Karadzic, Bosnian Serb leader, said he expected that the Bosnian Serbs would vote against the peace plan to divide Bosnia into 10 provinces along ethnic lines in this weekend's referendum.

Size of Bundesbank rate cut surprises dealers

By James Blitz, Economics Staff

THE Bundesbank again surprised dealers in financial markets yesterday by cutting the cost of lending funds to commercial banks by a larger amount than had been expected.

The German central bank cut its repo rate, which sets the cost of lending short-term funds, by 11 basis points to 7.60 per cent for periods of 14 days and 28 days.

The move was immediately followed by cuts in official interest rates in both the Netherlands and Belgium, both of whose central banks cut their three key interest rates by 25 basis points. There was some speculation that France will again ease its intervention rate when the Bank of France operates in the money markets today.

Yesterday's Bundesbank move led to new suggestions that the central bank's council will reduce its discount rate again when it meets on May 19.

One London-based analyst said there was now a possibility that the discount rate, which sets the floor for all German rates, will come down ¼ of a percentage point to 7.00 per cent. The repo rate cut also helped to ease pressures on the Danish krone in the run-up to next week's referendum on the Maastricht treaty. The krone was last night trading in London at about DKr3.8509 to the D-Mark, having been at DKr3.8580 the night before.

● French banks yesterday cut their base rates from 9.25 per cent to 9 per cent in response to last week's reductions in the Bank of France's key interest rates, continuing the downward trend in French rates, Alice Rawsthorn adds from Paris.

The fall in base rates, the fourth since France's new centre-right government took power in late March, coincided with a report by the Paris chamber of commerce that retail sales increased "significantly" in April. The retail sector has for the past year been very sluggish, partly because of the impact of high interest rates.

Yesterday's report, which included provisional estimates rather than firm figures, suggested that retail sales had risen by 2.1 per cent in April compared with the same month in 1992, with department stores registering a 6.5 per cent increase.

Russians warned state funding will be tied to reform

By John Lloyd in Moscow

STATE support in Russia will in future concentrate on those companies, farms, and even regions which showed themselves willing and able to reform, Mr Viktor Chernomyrdin, the Russian prime minister, told parliament yesterday.

This strategy of "picking winners" would be combined with "strengthened state regulations" to aid reform, he said. The prime minister added, however, that the government would not take "the fatal step" of substituting state action for market reforms.

Mr Chernomyrdin said the government would stop issuing general credits to agriculture, and would instead support those farms which had proved themselves best able to produce. It would back regions which had introduced reform plans and which were willing to use their resources to further reforms. It would also intervene more actively in the management of companies which remained in state hands, identify those which would benefit from investment, and create "financial and industrial groups".

He was careful to strike a note of optimism, saying that the "people are now slowly re-establishing their previous consumption levels". He claimed that inflation had fallen sharply in April, from a weekly rate of 6 per cent in the first week to 2.5 per cent in the last – while the drop in output was now levelling off.

"We have," said Mr Chernomyrdin, "a shaky balance. But we cannot take on ourselves economic burdens which we cannot carry." As evidence of the latter, the prime minister referred to the difficulties in paying for what he delicately called the "April measures – promises made to increase pay and benefits by President Boris Yeltsin in his referendum campaign.

Mr Chernomyrdin's ray of hope was further brightened by Mr Oleg Soskovets, one of the two newly appointed first deputy prime ministers, who said yesterday that a number of Russian companies could be made competitive on the world market. He said that his Russian industry portfolio contained a number of potentially world-class corporations and that attention would focus on these as a means of reviving the economy.

Industry unites against Bonn social security levy

By Quentin Peel in Bonn

LEADING industrial lobbies in the German private sector yesterday denounced government plans for a new social insurance surcharge on workers and employers.

They flatly rejected plans for a DM13bn ($8bn) statutory scheme to finance residential care for the chronically sick and elderly. They described the move as a direct threat to jobs, investment and to economic recovery.

In an extraordinary joint appeal to the government, the leaders of the four principal employers' organisations called for the whole programme to be reconsidered, and postponed, at least until recovery is under way.

In spite of their urgent call, however, Chancellor Helmut Kohl's government appears to be determined to press ahead with the programme. The battle over the scheme has caused serious divisions within the coalition, with the minority Free Democrats, in particular, sharing many of the private sector's misgivings.

Defenders of the plan in turn accused the private sector of "scandalous" selfishness in ignoring the urgent needs of the ageing population in Germany.

The insurance plan for residential care is seen by German industry as the last straw on the overwhelming burden of social costs imposed on employers. They fear that an initial surcharge of 1.7 per cent on incomes would rapidly rise to double figures, as the number of old people grows within the population.

Social insurance costs already amount to 37.4 per cent on top of basic wages, and all additional personnel costs for German employers add DM84 to every DM100 in their workers' pay packets, they say.

Mr Klaus Murmann, leader of the German employers' federation (BDA), said the scheme was "economically damaging and flawed in its basic conception. . . . The whole of German industry is united on this, as it has hardly ever been before."

The programme contained the potential for "an explosive rise in costs," because of growing numbers of old people, and abuse of the welfare system.

Czechs to allow share transfers to Slovakia

By Patrick Blum in Prague

THE CZECH government has decided to allow the transfer of shares in privatised Czech companies to Slovak investors, Mr Vaclav Klaus, the Czech prime minister, said yesterday, reversing an earlier controversial decision not to hand over the shares.

The shares were acquired by Slovak investors during last year's mass voucher privatisation before Czechoslovakia was split into the Czech Republic and Slovakia on December 31.

Prague surprised investors in March by announcing that it would not hand out shares due to Slovak investors because of a dispute with Bratislava over the financial assets of the former Czechoslovak state.

Mr Klaus then said the shares would be held as security against Czech government claims for compensation from Slovakia. The decision embittered relations between the two countries, and the dispute over assets has still not been resolved.

The move proved controversial and it caused widespread unease among domestic and foreign investors who had until then regarded investment in the Czech Republic as safe from political attacks.

Large private investment funds were particalularly upset as it meant the long-awaited distribution of the shares was to be postponed indefinitely. After several delays the shares were to be distributed in April, and the funds have been waiting eagerly to start trading their shares.

Czechoslovakia's voucher privatisation was the largest single programme of state asset disposal in the former communist countries.

More than 8.5m investors bought shares indirectly in about 1,500 companies with an estimated book value of $10bn (£6.5bn).

Italian confidence vote helps the lira

By Robert Graham in Rome

THE Italian prime minister, Mr Carlo Azeglio Ciampi, the former central bank governor, yesterday cleared the final procedural hurdle in the lengthy process of forming a new government by winning a vote of confidence in the Senate.

The financial markets reacted positively to the outcome, with the lira gaining modestly against the D-Mark and trading at L920. This compared with a parity of nearly L960 with the D-Mark when Mr Ciampi first set out to form his government.

He received support similar to that provided by the parties in last week's vote in the lower house of parliament. This was based on the backing of the outgoing coalition of Christian Democrats, Socialists, Social Democrats and Liberals. However, this time Mr Ciampi had to fend off a potential protest vote by the Liberals and elements within the Christian Democrat party who wanted firmer commitments on aid to the south of Italy.

But the protest vote never materialised and Mr Ciampi obtained 162 votes in favour of his programme – centred on early electoral reform and tight economic management. The main opposition parties chose to abstain or absented themselves, ensuring a majority. Abstentions totalled 50. In last Friday's vote in the lower house the same opposition parties abstained.

Deciphering Fiat's code of ethics

In the battle against corruption, some fronts remain unopened, writes Haig Simonian

THROUGHOUT Italy's political corruption scandal one vital question has gone – and may remain – unanswered: were company executives simply unwilling instruments in a network of kickbacks to politicians and parties, or were they the corrupters?

The "code of business ethics" unveiled by Fiat, Italy's biggest private company, this week, does not reveal anything about the past. But it goes some way towards eliminating the question in the future.

In three pages, Fiat's lawyers have written a code of conduct governing behaviour in dealings with the government, civil servants or public-sector companies. The message is clear. In no event shall employees provide "money or goods of any kind to promote or favour the interests of one or more group companies, even following illegitimate pressure".

The ban covers both cash and other kinds of "favours", which have cropped up in the leaked testimony of managers and politicians who have been interrogated. Although Fiat, which is alleged to have paid L2.4bn (£1m) for a posh Rome apartment for a senator, is not exhaustive, its list includes "any form of aid or contribution, disguised as sponsorship, assignments, consultancies, advertising, etc".

The document is as forthright on monitoring and enforcement. All employees, "considered because of their company duties to be most affected by the principles of the Code", will have to sign.

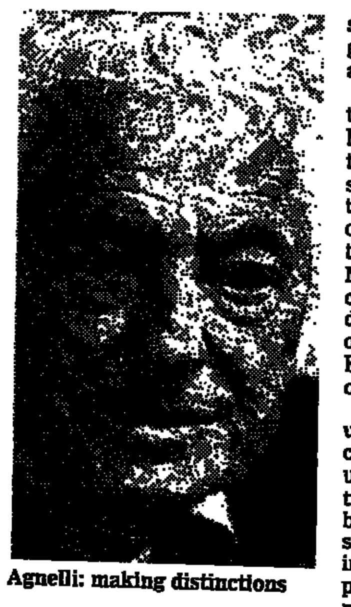
Fiat will immediately suspend business with any public functionary who tries to obtain favours. Any such attempt must be reported to an employee's superior or directly to the chief executive and legal division. Sub-contractors or freelances working for the group must make the same commitment.

Chief executives of group subsidiaries will have to report annually to Fiat's managing director on compliance, providing details of any attempts to extort bribes or favours. The sanction in the event of violation is clear; an employee "shall be deemed to terminate the relationship of trust existing between the company and the employee concerned, with the appropriate contractual and legal consequences on the employment relationship".

Tough talk. But does Fiat, which has seen almost a dozen of its executives in jail, under house arrest or having been briefly detained, mean what it says?

The question is particularly pertinent given the group's size, status and prestige. Last month, Mr Cesare Romiti, managing director, who has testified twice voluntarily before Milan magistrates, exhorted fellow executives to follow Fiat's example of speaking out against corruption in future.

Other companies are also reconsidering their business ethics. Eni, the state-owned energy and chemicals group, which has been implicated even more deeply than Fiat, will introduce its own code soon. In spite of the new mood of co-operation between business and the magistrates, some doubts remain that the change of heart by Fiat and other companies may be partly cosmetic.



Agnelli: making distinctions

Fiat's new code leaves a number of stones unturned. It governs relations only between the company and the public sector. Although the corruption scandal has so far involved only public-sector orders, it is not clear why Fiat is not demanding the same standards from staff when dealing with private companies.

Moreover, the code only covers Italy. Until now, magistrates have focused their attention on allegations of domestic corruption. However, kickbacks on foreign business, so far restricted to Italy's state-sponsored foreign aid programme, have also been alleged.

Without broadening the code to foreign countries, Fiat leaves itself open to accusations, often levelled against some big Italian companies by their foreign competitors, that contracts abroad have sometimes been won with bribes. Many US multinationals, particularly those operating in the developing world, have codes of practice similar to that of Fiat, but with the focus more on foreign operations.

Italian companies are particularly defenceless against claims by their competitors of unfair competition as the country has no law against paying bribes abroad. The only legal sanction, now being increasingly used by magistrates, is to press charges of falsifying company accounts.

Fiat says its code will be extended abroad in time. First, it must be approved by the boards of the group's roughly 1,000 subsidiaries. Then the code must be checked against laws in foreign countries in case amendments are needed.

The group says relations with other private companies are already largely covered by an existing "internal" code of practice, which governs matters such as conflicts of interest. Every new manager has to sign a declaration of agreement with the code.

However, the new code, for all its worth, does not mask a lingering ambivalence on the part of the company towards corruption. Addressing fellow industrialists at a meeting of the Confindustria employers' federation in Venice last month, Mr Giovanni Agnelli, Fiat's chairman, recognised the group's involvement in political corruption, but attempted to distinguish between two different types of behaviour.

First were companies, like Fiat, which may have been caught up in "episodes" of corruption, but were fundamentally involved in "industry". The second category comprised unspecified companies which had based their success entirely on privileged relations with politicians. The distinction, not easy to maintain, has been only partly clarified by Fiat's new code.

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Punks and pensioners find common cause

Hugh Carnegy and Hilary Barnes on odd alliances in the anti-Maastricht ranks

Danish referendum

TATOOED and unkempt, a group of post-punk youngsters appeared the least likely allies of the staid retired gentleman. But at a campaign meeting for next week's Maastricht referendum here, they cheered him as one of their own when he voiced fears that a Yes to the treaty would endanger his pension.

This coincidence of interest captured the sometimes unexpected grouping among those who are campaigning for a No next Tuesday.

In their efforts to achieve a repeat of last June's vote against ratification of the treaty, the anti-Maastricht forces are exploiting the electorate's fears on a wide range of issues – from the country's future as an independent nation to worries that Brussels will dictate pension and other social policy issues.

By pressing buttons which trigger an emotional response, the No campaigners have made much of the running this spring and are hoping to confound the opinion polls, which continue to show a comfortable lead for supporters of the treaty. But they are up against the entire political establishment, not to mention the business community and the trade union movement, all of them calling for a Yes.

At the campaign meeting in Copenhagen on Tuesday night, the Noes were represented on a 10-strong panel by two left-wing university professors and an MP for the right-wing populist Progress Party (the only one of the eight parties in parliament against the treaty).

Among those ranged against them were Mr Poul Nyrup Rasmussen, prime minister and leader of the Social Democratic Party, Mr Poul Schlüter, his Conservative Party predecessor, three other cabinet ministers and a former minister. The meeting itself was organised by the pro-Maastrict European Movement.

The disparate opponents of the treaty – stretching from left-wing environmentalists, who would really prefer to see Denmark out of the EC altogether, and ex-Communists to the far right – have not come together to mount a joint campaign. But they are happy to accept each other's support.

The left-wing dominated June Movement, biggest of the anti-Maastricht organisations whose leaders include a long-standing former member of the central committee of the Danish Communist Party and a feminist academic, invited Lord Tebbit, inveterate British Tory opponent of Maastricht, to address their supporters.

The June Movement's representative at Tuesday evening's meeting, physics professor Niels Meyer, hammered home the message that a vote for Maastricht was a vote to sell out the country's democracy and independence to "a centralistic and bureaucratic" European union.

"We shall no longer be masters in our own house. We have no need for a new European commercial and political superpower," he said to applause and whistles from the post-punkers. The Progress Party's Mrs Annette Just, by contrast, enthusiastically supports the free market basis of the internal market, but argued that the European Community did not need the Maastricht treaty's political superstructure.

One point on which all the "antis" are united is that the voters are being deceived when the government claims that the new referendum is being held "on a new basis" following last December's Edinburgh agreement between Denmark and its EC partners.

That agreement allows Denmark to opt out of the treaty's defence co-operation programme, the common currency, supranational legal and police co-operation and union citizenship. But since the Maastricht treaty itself has not been changed, the Noes argue that the voters are being conned. One of the most potent No-campaign posters depicts the Edinburgh agreement as the emperor with no clothes in the famous fable by Hans Christian Andersen.

The Noes say that if Maastricht proceeds, it will set Europe on the slippery slope towards a European superpower, a European army and a European police, a vision which many Danes find deeply disturbing – and was probably the main factor in last year's referendum defeat.

The weakness of the No campaign seems to be that it has no real alternative to offer. Mr Rasmussen was at his most effective at the meeting when he shot down Professor Meyer for his vague advocacy of wider co-operation with the Nordic countries and the countries of eastern Europe as an alternative to EC political co-operation.

"When I ask the No people what the alternative is, I hear something about mutually interlocking circles," the prime minister said sarcastically to the evening's loudest applause.

The Yes campaigners warn that Denmark will be dangerously isolated and could even be pushed out of the Community if there is a second No vote. The June Movement and others dismiss this as nonsense.

Denmark cannot be forced to leave the EC against its will, they say, and will therefore continue to play a full part in the inevitable rethinking of Community strategy if the Maastricht treaty falls.

Big gun aimed at No campaigners: Prime Minister Rasmussen

PM condemns licensing plans

Oslo outrage at EC oil and gas proposals

By Karen Fossli in Oslo

NORWAY'S government yesterday expressed strong disapproval of European Community plans to introduce an oil and gas licensing directive when it is struggling to convince a resistant electorate of the benefits of EC entry.

In its membership application Norway made clear it expected to voice an opinion on formulating Europe's future energy policy. Its position should be given considerable weight in proposals for the regulation of licences for exploration and exploitation.

Mrs Gro Harlem Brundtland, Norwegian prime minister, said that her country, as western Europe's biggest oil producer and main supplier of natural gas, took a keen interest in all European moves and measures relating to energy.

"We do not view the introduction of this proposal as a very positive move before Norway might be joining the Community," she said. "The situation reminds us of 1972 when the EC adopted a fisheries policy shortly before Norway was going to make the decision on whether to become a member of the EC. That move in itself had a considerable impact on the Norwegian referendum."

Norwegian voters rejected EC membership in 1972 – mainly because of the fish issue – in a bitterly devisive referendum. It began fresh membership negotiations with the Community last month.

Norway finds it difficult to understand the need for a licensing directive. "On the contrary," said Mrs Brundtland, "it may damage the image of the Community among the people in Norway in the run-up to a new referendum."

The proposed directive would have considerable impact on Norway and little or negligible impact on most EC countries, the prime minister said.

Phone bill cuts will help Irish business

By Andrew Adonis

IRELAND'S state-owned telecommunications company is to make large cuts in international call rates, but will increase residential and some local charges to compensate.

Telecom Eireann said its aim was to help business. The changes would also help align more closely the prices and costs of calls – a process of "rebalancing" tariffs taking place across Europe.

International call rates will fall by between 16 and 59 per cent from September. The peak-time rate for calls to Britain will fall from 48 Irish pence a minute to 30p, and calls to continental Europe from 61p a minute to between 36p and 48p.

The minimum charge for local calls in peak period will change from 11.2p for 15 minutes to 9.5p for three minutes.

Residential customers will also have to pay more VAT on their phone bills.

Consumer groups reacted angrily to the changes; business welcomed the prospect of cheaper overseas calls.

Brussels clears aircraft link-up

By Andrew Hill in Brussels

THE European Commission has approved a German-Dutch alliance to build regional and commuter aircraft, 18 months after turning down the proposed Franco-Italian takeover of de Havilland, the Canadian aircraft manufacturer, in the same sector.

The acquisition by Deutsche Aerospace (Dasa) of 51 per cent of Fokker, the Dutch manufacturer, was assessed on the same basis as the de Havilland decision but posed no competition problems.

However, it could open the way for a possible four-way link-up to build regional and commuter jets and turbo-prop aircraft with Aérospatiale of France and Alenia of Italy. Both bid unsuccessfully for de Havilland in 1991.

That is still the only deal to have been outlawed under the EC's 1990 merger rules. The October 1991 decision caused political uproar in France and Italy. The main argument within the Commission was over the definition of the market for commuter aircraft. But the companies and governments also argued that Europe needed a strong manufacturer if it was to hold its own in the world market.

Dasa, a subsidiary of Daimler-Benz, has invited Aérospatiale and Alenia to take a minority stake in Fokker in due course. A spokesman for the German company admitted yesterday that such a deal would pose much greater competition problems than the Dasa-Fokker link-up.

Using the same criteria as in the de Havilland case, the Commission decided the turbo-prop activities of Dasa and Fokker did not overlap. Dasa does not manufacture jets directly, and, although it is part of Airbus, Brussels decided the link would not significantly reduce competition.

Miyazawa denies Cambodia pullout

By Robert Thomson in Tokyo

MR KIICHI Miyazawa, Japan's prime minister, yesterday gave assurances the country would not withdraw from a United Nations peace-keeping operation in Cambodia, but said the government would renew requests for tighter security for Japanese participants.

Controversy over the killing last week of a Japanese police officer has threatened not only Tokyo's role in the Cambodian operation, but challenged the country's longer-term policy of taking an international political profile appropriate to its economic influence.

Over the past few days, the Japanese mainstream media has improbably suggested that the peace-keepers were unfairly exposed to risk in Cambodia, that the operation was designed to go wrong to ensure a greater domestic role for Japan's military, and even that the depth of reaction to the killing is due to the unique emphasis that Japanese put on the value of life.

In the face of sustained criticism, a government poorly prepared for the likelihood of casualties has fumbled badly in attempting to justify the presence in Cambodia. Mr Miyazawa, in a specially called press conference yesterday, attempted to put the UN peace-keeping operations in a broader context and to put Japan's international ambitions back on course.

"We have a commitment to assist in the Cambodian election process, and we will honour that commitment," Mr Miyazawa said. "The death of the officer is regrettable, and I, as the head of government, feel responsible."

In spite of Mr Miyazawa's assurances yesterday, it is clear that the peace-keeping policy could collapse if there are further casualties. A retreat would compromise Japan's campaign for a permanent seat on the UN Security Council and make it very difficult for the government to commit troops to future peace-keeping operations.

As well as the police officer killed last week, four others were injured in the same ambush, apparently by the Khmer Rouge guerrilla group, which has boycotted the election.

The Japanese government, fearing that casualties could rise sharply after the election on May 23, have hinted the peace-keeping policy will be reviewed after the vote, but is likely to wait for other leading countries to withdraw before pulling out.

In addition to the 75 civilian police and 600 military personnel already sent to Cambodia, 41 Japanese election monitors left Tokyo yesterday, 12 fewer than originally planned. The government has requested that the monitors be sent to secure areas, and is still negotiating with the UN on improving conditions for the police.

However, Mr Keijiro Murata, the home affairs minister, who has just visited Cambodia, said the government should not be seen to be asking for special treatment for Japanese police, although it should ensure that they have enough water, food and other supplies to perform their duties.

"There is really a very large gap between the perception Japanese have of the UN operations and the international perception. We have to be aware of that gap," Mr Murata said.

The Dalai Lama speaking to the press in London yesterday

Tibetan leader voices fears of 'cultural genocide'

Dalai Lama calls for dialogue

By Alexander Nicoll, Asia Editor

THE DALAI Lama, Tibet's exiled spiritual leader, said yesterday he wanted to discuss with China a "one country, two systems" approach along the lines of Beijing's policy for Hong Kong and Taiwan.

At a press conference in London, the Nobel peace prize winner said Tibet was not part of China, which has governed it since invading in 1951. "Ultimately, the Tibetan people have the right to decide (their future)," he said.

However, Mr Deng Xiaoping, China's paramount leader, had said anything could be discussed except complete independence, the Dalai Lama added, apparently referring to a meeting in 1979 between Mr Deng and the Dalai Lama's brother, acting as his emissary. Without accepting this starting point, discussions would be pointless, he indicated.

The Dalai Lama's suggestion of autonomy under Chinese sovereignty has been made before. But his urgent desire for dialogue on such an approach clearly reflects his growing concern about transfers of Chinese people into Tibet and the devastation of Tibetan culture.

Population movements into Tibet, he said, involved violations of human rights, environmental problems, and "cultural genocide".

Mr Douglas Hurd, UK foreign secretary, told the Dalai Lama yesterday he would raise the issue of population transfers with China. He would also urge China to start a dialogue with Tibetans including the Dalai Lama"without any preconditions".

This toughening of Britain's position on Tibet came recently after China sought to impose conditions on talks, officials said. Britain believes Tibet should be autonomous but recognises the "special position" of China – an approach in line with that of most other countries which do not believe complete independence from China is realistic.

A group of European ambassadors to Beijing is due to visit Tibet later this month to seek first-hand evidence. Travellers report the wholesale demolition of Tibetan buildings and their replacement with stalls for mostly Chinese vendors. Mr Robbie Barnett, director of a London-based Tibet information network, said one recent visitor had reported an "architectural holocaust".

There are no reliable estimates of movements of Chinese into Tibet, although China specialists note that movements of people from rural to urban areas in search of commercial opportunities are common throughout China.

China meanwhile kept up its campaign to discredit the Dalai Lama. Its London embassy issued a document accusing him of acting "in total disregard of historical facts" and insisting that life for Tibetans was much better than under the previous "feudal serfdom".

Seoul may resume N Korea talks over nuclear issues

By John Burton in Seoul

SOUTH KOREA said yesterday that it may soon resume talks with North Korea in an attempt to encourage it to remain a signatory of the nuclear Non-Proliferation Treaty (NPT).

The announcement followed the UN Security Council's adoption on Tuesday of a resolution urging North Korea to reconsider its decision to withdraw from the NPT and open its nuclear facilities to inspections by the International Atomic Energy Agency.

The resolution also included the implied threat of economic sanctions if Pyongyang blocks further nuclear inspections.

The resolution was approved by a vote of 13-0, with China, North Korea's most influential ally, and Pakistan abstaining.

Seoul will co-ordinate its policy on North Korean talks with the US, which has indicated that it is willing to hold high-level discussions with Pyongyang on the nuclear issue.

South Korea is proposing to grant concessions to North Korea if it returns to the NPT, including a reduction in the size of the annual US-South Korean military exercises and opening US military bases in South Korea to inspections by the North.

Seoul is also prepared to offer aid to North Korea's struggling economy.

North Korea said during the UN debate on Tuesday that the nuclear issue could be solved through negotiations with the US. North Korea believes that such talks could be the first step to diplomatic recognition by Washington.

● North Korea rejected the UN resolution, accusing the Security Council of interfering in its internal affairs.

The official news agency KCNA quoted a statement by a foreign ministry spokesman as saying the government considered the resolution "an interference in its internal affairs and a grave infringement on its sovereignty".

Bangkok fire 'will not harm company'

THE Hong Kong owners of a Thai toy plant where at least 204 workers, mostly young women, died in one of the wolrd's worst factory fires said yesterday the disaster would do their company's finances little harm, Reuter reports from Hong Kong.

Kader Holdings, which has a 40 per cent stake in the Bangkok factory, said it regretted the blaze and had sent condolences to the families of the dead. The announcement made no mention of compensation for the victims' families. The company said it "believes that the accident will have no substantial financial impact".

Guards at the Bangkok plant said workers had been locked in to prevent pilfering. Workers said there were no fire alarms or fire escapes.

Mr Kenneth Ting, chairman, told the South China Morning Post a smaller blaze had hit the factory in 1989. "Every precaution was taken after the 1989 fire to improve the situation, but nothing could be done to stop Monday's fire as it was caused by an electrical spark."

However, Thai police said initial investigations indicated an electric fault was not to blame, suggesting either arson or carelessness instead.

Libya urges Rushdie boycott

Libya called yesterday for an Islamic boycott of Britain following a meeting between Prime Minister John Major and the author Mr Salman Rushdie, Reuter reports from Tunis.

Mr Rushdie has described his private 40-minute meeting with Mr Major on Tuesday as the most important step so far in his campaign against the religious edict condemning him to death after Tehran said his novel The Satanic Verses blasphemed Islam.

Iraq denies plot to kill Bush

The Iraqi government has denied allegations that it plotted to assassinate former US President George Bush during a visit to Kuwait last month, AP reports from Nicosia.

Mr Abdul Jabbar Muhsin, President Saddam Hussein's press secretary, said Mr Bush was not worth wasting the explosives to kill him, and said the allegations were concocted to provoke another US-led attack on Iraq.

Kuwait plans to try 17 suspects it claims had plotted to bomb Mr Bush when he visited the emirate on April 14-16.

Researchers develop artificial eye

By Alan Cane

AN ARTIFICIAL eye capable of recognising shapes and patterns in a way which mimics human sight has been developed by researchers in Dublin.

Teams from Hitachi of Japan and Trinity College, Dublin, have combined two of the most advanced information processing technologies – optical computing and neural networking – to create an optical device which can "learn" to recognise objects in a fashion far in advance of the comparatively crude robot vision systems available today. The Dublin eye can, for example, recognise and distinguish between two patterns irrespective of their position or movement.

Applications for the new technology could include automated assembly systems in factories, robots able to tackle a wide range of services and self-steering vehicles. Among the work being carried out at Hitachi is the interpretation of human facial expressions, which could have important consequences for human-machine interaction.

Current automatic vision systems use television cameras to scan an image or an object, the shape of which is analysed by special software. While impressive results have been obtained with such systems they are at best an approximation to true machine vision.

The Dublin researchers realised that computers using light beams instead of electrons would have the necessary speed to analyse more complex shapes or objects in motion. The Dublin eye is one of the first devices which combine light based computing with a neural network, an attempt to create a brain-like system using microprocessor chips.

It is the second breakthrough this year for Hitachi's European laboratories. In February, the Cambridge laboratory developed the prototype of a powerful computer memory. Hitachi has been collaborating with Trinity College for five years and the arrangement has led to establishment of the Hitachi Dublin Laboratory in 1989.

Rehabilitation aid urged

By Andrew Hill in Brussels

THE EUROPEAN Commission wants to earmark Ecu1bn (£790m) of central and national EC funds for rehabilitating developing countries which have been crippled by civil war or natural disasters.

The Commission yesterday proposed an initiative aimed at filling the gap between short-term emergency aid and long-term development funding. Some 60 per cent of the planned funding would come from existing EC resources, including the Lomé Convention of African, Caribbean and Pacific countries and the Community budget, and the rest would have to come directly from the 12 EC members.

Rehabilitation aid is supposed to prepare the way for economic recovery and political and social development after upheavals such as civil war. But although the Commission has already launched rehabilitation schemes in areas such as Angola, Mozambique and Ethiopia, existing aid instruments are not tailored to economies which are still too fragile to support long-term aid programmes.

Denmark, which holds the EC presidency, has been pressing for a Commission initiative, and development ministers from the 12 EC members will discuss the proposal at their May 25 meeting.

EC rehabilitation support would be used to help restore production, repair basic infrastructure and restore administrative institutions, and prepare the way for retraining, resettlement and job creation.

Suharto wins backing on G7

Non-aligned countries have backed Indonesian President Suharto's plan to speak to leaders of the industrial powers, but some delegates to a Non-Aligned Movement ministerial meeting said yesterday they were worried the issue was a distraction, Reuter reports from Nusa Dua, Indonesia.

Mr Suharto, as chairman of the Non-Aligned Movement, has been pressing to put the developing world's case to the Group of Seven leading industrial countries' Tokyo summit in July. The G7 has been lukewarm about the proposal.

Afghans still waiting to win the peace

Steve LeVine reports little progress a year after the country's civil war ended

IN HERAT, visiting dignitaries fete local leader Mr Ismael Khan as chief of the "north-west kingdom of Afghanistan." In north central Mazar-i-Sharif, nothing gets done without permission from kingpin Mr Rashid Dostum. And in eastern Jalalabad, Governor Abdul Qadir serves at the good grace of kingmaker Pakistan.

A year after an Islamic revolution ended its 14-year civil war, Afghanistan's disintegration has accelerated. Its strongest guerrilla forces continue to battle for control of Kabul, allowing the rest of the nation to spin off into mostly peaceful independent fiefdoms.

These, like most people outside the region, long ago lost interest in the relentless killing in Kabul, which intensified yesterday as guerrilla groups launched a pre-dawn bombardment.

Mr Sayed Jaffer Naderi, governor of the northern province of Baghlan, declares of leaders in the capital: "They don't care about us, so we don't care about them." Mr Naderi is part of a federation led by Mr Dostum, called the National Movement of Afghanistan.

"In a year, they couldn't even design a national flag," Mr Naderi continues. "What can we expect they will do for this country?"

The end of the Afghan war in April last year was supposed to signal the return of more than 5m Afghan refugees from Iran and Pakistan. Instead most remain in exile, and the rebels' latest attempt to settle their problems – an accord signed in March – has all but fallen apart.

The main antagonists in the continued fighting are the prime minister-designate, Mr Gulbuddin Hekmatyar, and the defence minister, Mr Ahmed Shah Masood.

Their mutual emnity runs deep. Since Mr Masood is Kabul's most powerful single figure, Mr Hekmatyar won't risk entering it, and instead fires rockets to get Mr Masood out. His forces were thought responsible for most of the rockets and shells which rained on the capital yesterday.

One Afghan surveying the damage in another recent attack said: "The only way to solve Afghanistan's problem is to put all the leaders on a plane and shoot it down."

Indeed, little can be said for the leadership of President Berhannudding Rabanni. There is an almost incapacitation of public services.

Roads do not get fixed, and travelling outside Kabul is like traversing a moonscape.

Electricity is regularly severed to Kabul – opponents blame Mr Hekmatyar – and that shuts off the water supply as well.

Violence and intimidation has increased against western relief workers as well. In February, four United Nations employees were executed at a roadside near Jalalabad.

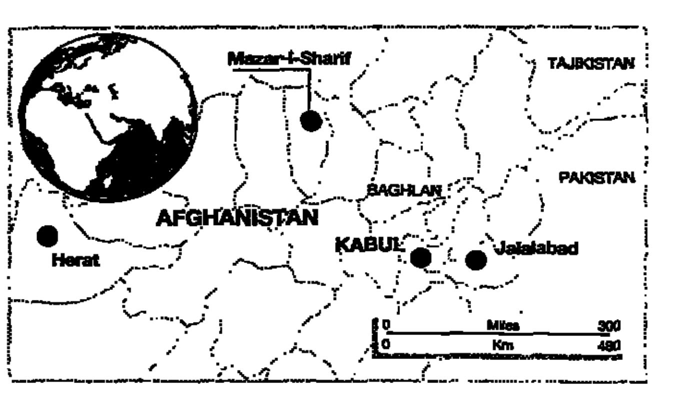
The UN and the French organisation Médecins sans Frontières this spring shut its offices in northern Kunduz, complaining of threats by Arab relief agencies there and robberies.

Some Afghans are so fed up that they are longing for the old days under the pro-Moscow government of President Najibullah.

At a checkpoint along the road from Jalalabad to Kabul, an armed man boarded a bus and, seeing foreigners, shouted: "Long live Najibullah. As long as we lack strong leadership, there will be war."

The northern fiefdom run by Mr Dostum and Mr Naderi, in comparison, is a model of peace which has kept more foreign missions open in Mazar-i-Sharif than in Kabul.

The fact that Mr Dostum and Mr Naderi operate something of a secular enclave that is a haven for members of the former communist government rankles those fighting it out in Kabul. But this has not caused much despair in the north. "Everyone says we are not Moslem," says Mr Naderi. "But we're watching while they keep fighting in Kabul and call each other *kafir* (heretic). We don't know who is a *kafir* any more."



Maverick guerrilla groups launched a fierce bombardment of the Afghan capital Kabul before dawn yesterday, killing at least 15 people and injuring hundreds, Reuter reports from Kabul.

It was the fiercest battle since the fractious guerrilla leaders of the Islamic coalition government signed a pact in Pakistan in March to end months of fighting.

Over 300 rockets and shells hit Kabul before dawn. Government tanks raced to reinforce the main battlefront in the south-western suburbs.

The International Committee of the Red Cross (ICRC) reported 576 injured in the shell-shattered capital. Doctors earlier reported 15 dead but said later the figure would be much higher.

Most of the rockets were fired from positions of the Iran-backed Shia Hezb-i-Wahdat group and the hardline Hezb-i-Islami party led by Mr Gulbuddin Hekmatyar, prime minister-designate, in hills to the south and west.

President Burhanuddin Rabbani and Mr Hekmatyar were in the eastern city of Jalalabad for a 12th day of talks to try to break the deadlock over formation of a cabinet under the terms of the March peace agreement.

● International response to a UN appeal for humanitarian aid for Afghanistan has been "disgraceful," Oxfam director Mr David Bryer said yesterday.

Jamiat-i-Islami mujahideen fighters stalk rival Hezb-i-Islami rebels near the presidential palace in fighting last year

Court hearing on Hani killing

Three white right-wingers accused of killing South African black leader Mr Chris Hani appeared in court as scores of heavily armed troops ringed the building, AP reports from Johannesburg. Mr Janusz Walus, Mr Clive Derby-Lewis and his wife, Mrs Gaye Derby-Lewis, said nothing as a magistrate agreed to a state request to adjourn the case to May 21.

Reuter adds from Durban: South Africa lost up to R500m (£102m) in tourism earnings last year as a direct result of political violence, Mr Piet van Hoven, chairman of the tourism board Satour, said.

Indian elections

India postponed elections yesterday in four states previously ruled by the Hindu nationalist Bharatiya Janata Party after the government claimed that polling could set off Hindu-Moslem clashes, Reuter reports from New Delhi.

Morocco accord

Four Moroccan left-wing opposition parties yesterday announced agreement on a joint policy programme they would implement if their coalition wins parliamentary elections due on June 25, AP reports from Rabat.

Bringing the patient to market

Michael Prowse reports on the progress of US health care reform

IT WAS meant to arrive in the first 100 days. Then it was delayed to the middle of this month. The latest word is that President Bill Clinton's health care reform plan will be sent to Capitol Hill in mid-June. But few Washington insiders would be surprised by further delay.

The plan is supposedly being held back to avoid a legislative logjam. The White House is reluctant to unveil the biggest upheaval in domestic policy since President Lyndon Johnson's "Great Society" of the 1960s while sceptical congressional committees are fully occupied analysing (and frequently amending) the fine print of the Clinton economic plan.

But the delays also reflect the monumental complexity and political sensitivity of the challenge confronting Mrs Hillary Rodham Clinton and Mr Ira Magaziner, the workaholic White House aide who has emerged as the true intellectual leader of her 500-strong task force. Tall and frizzy haired, Mr Magaziner looks and sounds like a madcap inventor. But for his personal friendship with the Clintons, he would still be an obscure Rhode Island management consultant.

Instead he is playing the leading role in reshaping an industry that accounts for nearly 14 per cent of US gross domestic product and that touches the lives of every family and business in the nation. His historic task is not merely to produce an economically coherent reform but one that can survive an onslaught from dozens of powerful interest groups, including doctors and the private insurance industry.

By all accounts the going is heavy. The goals are clear enough: to reduce the growth of healthcare costs, which threaten to bankrupt both state and federal government, and to guarantee a basic package of benefits for all Americans, which means extending cover to the 35m people (15 per cent of the population) who lack health insurance.

But the means to these ends remain uncertain. Since the final stages of the election campaign last year, Mr Clinton has professed support for a reform known as "managed competition".

Hillary Rodham Clinton: battling with complexity and political sensitivity

The idea is to enroll people (including the currently uninsured population) in regional intermediaries known as health insurance purchasing co-operatives. These would buy care on behalf of individuals and companies from competing networks of private sector physicians, hospitals and insurance companies.

The theory is that their market clout would enable them to exert much greater downward pressure on costs, while maintaining quality, than is possible in today's fragmented health care market.

This still appears to be the general route favoured by the task force, although it is chary of the language of managed competition, which was invented by right-of-centre economists. Senior officials talk of "health alliances" rather than purchasing co-operatives and emphasise guaranteed access to care via new "health insurance" cards rather than market discipline.

They also claim the reforms would not restrict individuals' choice of doctors even though most systems of managed care, such as pre-paid Health Maintenance Organisations (HMOs), achieve cost savings partly by limiting patient choice.

But the managed competition framework (whatever it may be called) leaves a host of questions unanswered. How much flexibility will be left to individual states, some of which favour different types of reform? How will the cost, which could exceed $100bn a year, be financed?

What will be included in the guaranteed package of minimum benefits? Will it embrace expensive new items such as mental health benefits and long-term community and nursing home care? Mr Clinton will face a political storm if he includes abortion, yet if he excludes it many women's access to it could be restricted.

How much of the health care market will be subsumed in the new system? It seems certain to absorb Medicaid, the existing publicly funded regime for the poor. But there is controversy about Medicare, the system that covers 35m elderly Americans. The administration says nobody will be forced out of Medicare, yet it clearly wants to encourage a switch into managed competition because the elderly account for a disproportionate fraction of health care spending.

And what about big companies? If they too stay outside the proposed health alliances, the new system might end up little different from the status quo.

Equally controversial is the way that cash will be channelled from companies and individuals to the purchasing co-operatives. The task force is considering replacing current premiums with what amounts to a payroll tax on employers and employees. This offers great administrative simplicity and a promising way of capping spending.

With a payroll tax, the money available to purchasing co-operatives for buying the minimum package of benefits could not grow faster than corporate incomes unless the tax rate were raised. However, a payroll tax would be vigorously opposed by Republicans and many conservative Democrats as a job-destroying step towards Canadian "socialised" medicine.

Mr Clinton's dilemma is that root-and-branch reforms offering the greatest savings are the least likely to win broad congressional support. Thus while the chances of reform being enacted next year are good, the fundamental problems may not be adequately addressed during Mr Clinton's first term.

Fears over inflation surface again in US

By Michael Prowse in Washington

US producer prices rose 0.6 per cent between March and April, reigniting fears that inflationary pressures are growing in the US economy in spite of sluggish growth of output and jobs, official figures indicated yesterday.

The rise in wholesale prices – three times the consensus forecast on Wall Street – prompted a sharp retreat of bond prices as traders discounted lingering hopes that the Federal Reserve might respond to signs of flagging growth with another cut in short-term interest rates. An early tightening of monetary policy, however, remains highly improbable.

A surge in vegetable prices following severe winter storms accounted for much of the increase in producer prices: the food price index rose 1.4 per cent between March and April.

However, the "core" producer price index, which excludes volatile food and energy prices, rose 0.4 per cent last month, a much larger increase than expected in financial markets.

Producer prices have risen more than expected for three months in a row. The increase relative to April last year was only 2.4 per cent but the annualised rate of increase for the last four months is 4.7 per cent against 1.6 per cent in all of last year.

Consumer prices and various indices of commodity prices have also risen faster than widely expected, prompting sporadic concern about inflation trends in markets.

Most economists believe recent price figures have been distorted. The relatively sluggish domestic US recovery coupled with weak labour markets and recession in many overseas markets is expected to keep inflationary pressures in check this year and next.

However, the unexpectedly poor price figures have helped undermine the vigorous bond market rally of the early months of this year by hinting that consumer prices increases of 3 per cent last year marked the low point of inflation in this business cycle.

Hopes that inflation might continue to decline to about 2 per cent, justifying much lower long-term bond yields, have largely evaporated.

With the inflation trend still uncertain, the markets are anxiously awaiting the release of consumer prices figures out today.

Puerto Rico fears fall-out from Clinton tax plan

By Canute James

PUERTO RICO'S government has attacked tax changes proposed by US President Bill Clinton which it says will damage the island's economy.

The US administration has proposed that section 936 of the internal revenue code, which has led many companies to set up factories on the island, be changed as part of efforts to cut the federal deficit.

The administration of the US Caribbean possession, which had earlier appeared willing to consider Mr Clinton's proposals, began signalling a policy switch last week amid mounting fears of economic dislocation resulting from the changes, which could lead to disinvestment and increased social and political problems.

"Puerto Rico stands to lose 30,000 jobs if the Clinton proposal is implemented," said Mr Baltazar Corrada del Rio, the island's secretary of state. "This means that unemployment, now 18 per cent, will increase to 21 per cent."

The Puerto Rican government has begun seeking the support of Caribbean neighbours to argue in Washington against changes to the revenue code; it claims Mr Clinton's proposals will affect a programme under which Puerto Rico has pledged to lend Caribbean countries about $100m (£64.9m) a year.

Section 936 of the US tax code allows federal tax exemption to Puerto Rican subsidiaries of US companies. Profits from these subsidiaries are deposited in Puerto Rican banks. The deposits, which total about $15bn, are central to the island's financial stability.

US government officials say section 936 costs the Treasury $2bn-$3bn a year. Mr Clinton is proposing to change the tax break to a 60 per cent wage credit, in an attempt to raise $7bn for the Treasury over five years.

"All this means is that there will be more dependence on federal aid, such as food stamps, and more pressure for migration to the mainland. The Clinton proposal for Puerto Rico is the reverse of his policy for the rest of the US," Mr Corrada del Rio said.

Puerto Rico's neighbours will be quick to argue against the Clinton plan. Previous administrations on the island have committed $100m a year of the section 936 deposits for low-interest loans for business projects in Caribbean Basin countries. Since 1985, neighbours have received $650m in loans under the scheme.

Mr Brian Kuei Tung, Trinidad and Tobago's industry minister, agreed that the proposed changes would not only hurt Puerto Rico's economy but limit the island's ability to finance regional development. Trinidad and Tobago is a leading borrower of the funds, with $210m disbursed and $131m more pending approval.

California grabs insurance nettle

A novel scheme could solve the problem of non-payment of car insurance, writes **Nikki Tait**

ONE in every four Californian drivers does not have car insurance; in some inner-city areas the figure rises to four out of every five. The "average" Californian motor policy costs about $1,000 (£649) a year, yet only half the premiums collected are paid out in claims.

For years the problems of the Californian car insurance industry have held the attention of politicians, lawyers, the industry and consumer groups. Now, however, an ingenious but surprisingly simple solution – called "pay-at-the-pump" insurance – has become a serious political proposition.

Legislation to introduce a pay-at-the-pump scheme is grinding through the state legislature in Sacramento after being introduced by Mr Art Torres, a Democrat senator from Los Angeles. It has the backing of Mr John Garamendi, California's politically-ambitious insurance commissioner.

Even if the Torres legislation fails, the idea may be put to the Californian electorate more directly. Mr Andrew Tobias, a Harvard-educated economic commentator whose book "Auto Insurance Alert" was the genesis for the Torres initiative, has teamed up with a former associate of Mr Ralph Nader, the US consumer activist, to draft a proposal which could be presented to Californian voters next year.

"We're seeing whether we can put something together," says Mr Tobias. "We're taking it one step at a time, but the next few months could decide."

Pay-at-the-pump insurance is fairly straightforward. Under the amended Torres bill, for example, Californian drivers would pay an extra 28 cents for every gallon of petrol they buy. In return they would receive a one-off voucher which could be exchanged, via an insurance agent or company, for a basic motor insurance policy.

This would provide the holder with medical coverage worth up to $15,000. There would also be coverage for non-reimbursed lost wages of up to $12,000 a year for a maximum two-year period. The effective annual cost of this policy for someone clocking up about 15,000 miles a year in a car with average petrol consumption would be in the $200-$300 range.

The coverage would be in the form of a "no-fault" policy – in the event of an accident the insurance would be triggered regardless of who was to blame and would cover the policyholder's losses rather than those of anyone injured by the policyholder. Drivers could top up their protection with additional private policies if they wished.

The appeal of the Torres proposal is that a greater proportion of drivers in the nation's most populous state would fall into the insurance net. Lengthy legal battles over damages resulting from car accidents – in addition to core medical costs – would also be minimised.

There are some problems, however. A "pay-at-the-pump" scheme could penalise out-of-town drivers who travel longer distances but are statistically better risks than their urban counterparts.

It could also encourage drivers to nip across state lines, filling their tanks with cheaper, out-of-state petrol, although California's geography mitigates against this possibility. Some supporters of the plan also suggest that if California goes down this route, other neighbouring states might be encouraged to follow.

But the biggest hurdle remains a political one. The California state legislature sent the Torres bill first to the state Senate insurance committee, where it narrowly won approval late last month after amendments designed to make it more palatable to the industry lobby.

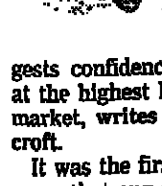
Unfortunately, it also dictated that the next stop would be the judiciary committee, where trial lawyers have considerable clout.

The Californian Trial Lawyers Association has steadfastly opposed any "no-fault" system. Clearly, such a system would diminish the lawyers' workload. However, the CTLA has always justified its opposition on more ideological grounds – that individuals' rights would be undermined if they were unable to sue for damages beyond basic medical costs.

Even Mr Torres' aides admit the legislative odds are against them at this stage, although they take some comfort from the wider industry support which the amendments negotiated at the insurance committee stage have won.

"If you'd asked a few weeks ago, I'd have said this was dead. There's a chance we can get it through judiciary," said one. If the bill falls, however, the Tobias initiative could emerge as the next line of attack.

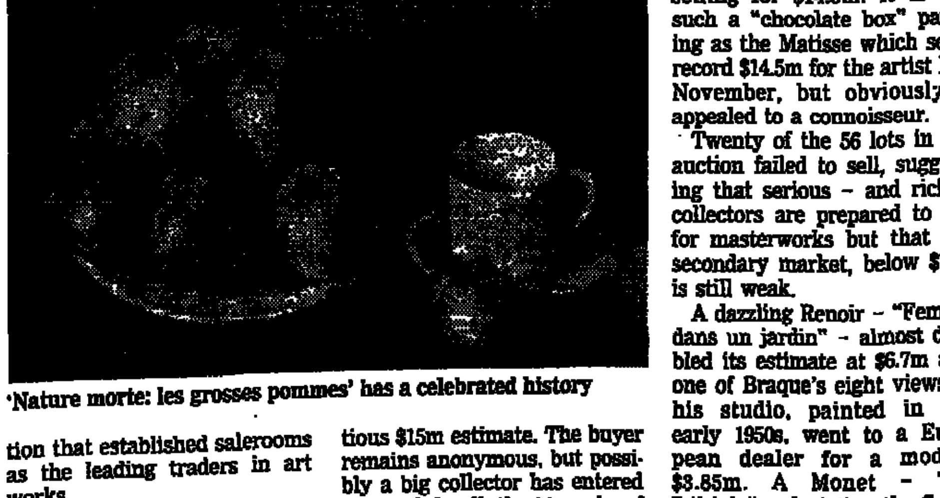
Cézanne still life animates market



THE $28.6m (£18.6m) paid for a Paul Cézanne still life at Sotheby's in New York on Tuesday night suggests confidence has returned at the highest levels of the art market, writes Antony Thorncroft.

It was the first time in three years that any work of art had topped the $20m mark at auction. Prices are still well below the peaks of May 1990, when a Van Gogh portrait sold for $82.5m, but the sale proved that even in a nervous market good pictures can do well.

Painted around 1890, Cézanne's "Nature morte: les grosses pommes" has a celebrated history. It was included in the landmark sale of the Jakob Goldsmidt collection in 1958 when it sold for $252,000 to the Embiricos shipping family: it was the success of this auction that established salerooms as the leading traders in art works.



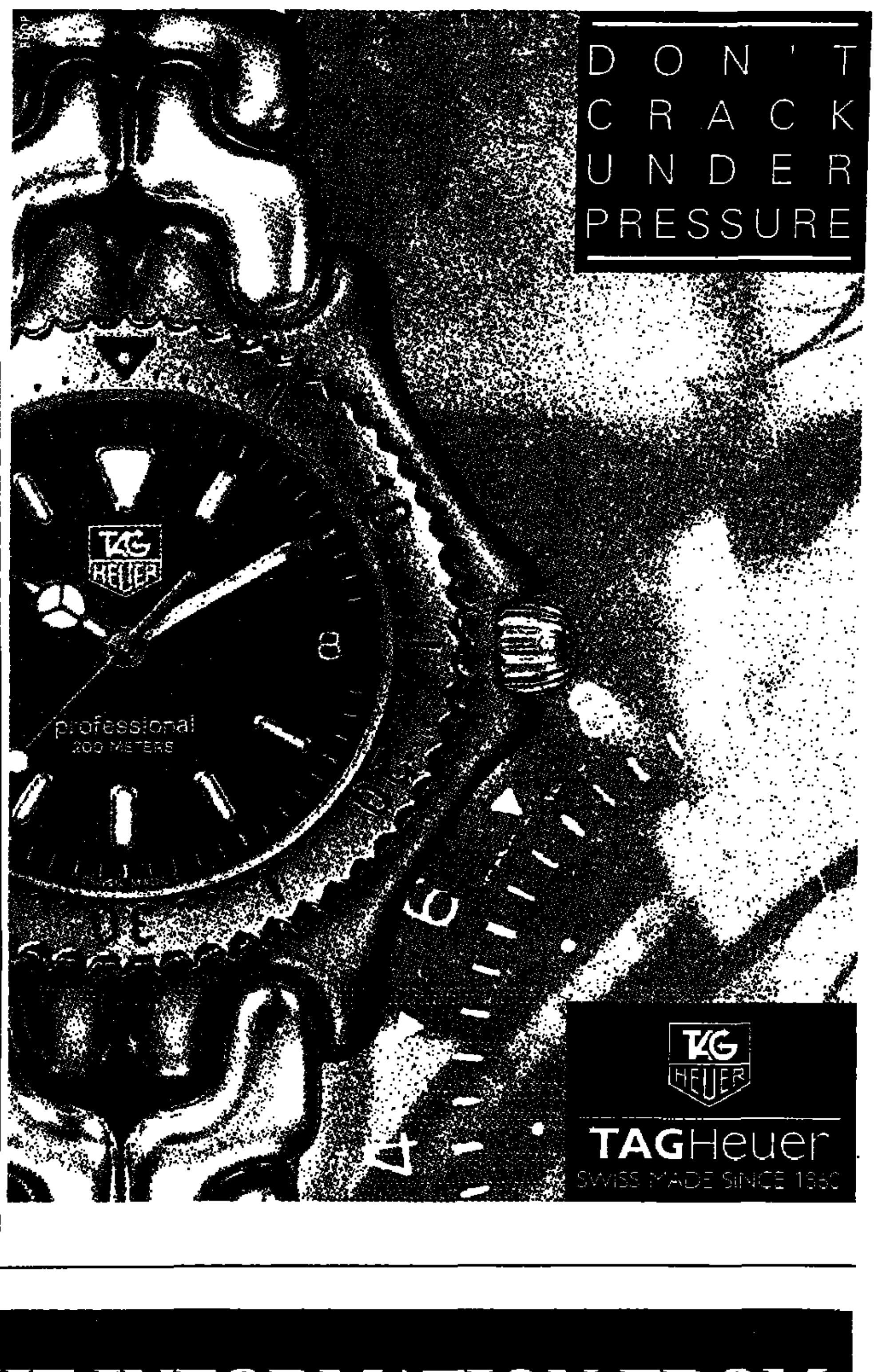
'Nature morte: les grosses pommes' has a celebrated history

The price paid on Tuesday was a record for Cézanne and far in excess of Sotheby's cautious $15m estimate. The buyer remains anonymous, but possibly a big collector has entered the field. In all, the 56 works of impressionist art on offer fetched $75.9m, with 12 per cent unsold by value.

The other important lot on offer, "Fatma, La Mulatresse", which is a large portrait of a young girl painted by Henri Matisse in 1912, also did well in selling for $14.3m. It is not such a "chocolate box" painting as the Matisse which set a record $14.5m for the artist last November, but obviously it appealed to a connoisseur.

Twenty of the 56 lots in the auction failed to sell, suggesting that serious – and rich – collectors are prepared to bid for masterworks but that the secondary market, below $1m, is still weak.

A dazzling Renoir – "Femme dans un jardin" – almost doubled its estimate at $6.7m and one of Braque's eight views of his studio, painted in the early 1950s, went to a European dealer for a modest $3.85m. A Monet – "La Débâcle" – depicting the Seine in winter, also sold at the bottom of its estimate for $2.2m.



NEWS: WORLD TRADE

Clinton trade policy makes noisy debut

Tactics come to the fore, says Nancy Dunne

AMID a chorus of criticism and confusion abroad, the Clinton administration's trade policy has begun to emerge in speeches, interviews and, most tellingly, in its actions.

In the fine tradition of the Democratic party (accused of devouring its own in the heat of battle), the debate is noisy. But it is more about tactics than policy, and insiders pour scorn on reports of differences among the main policymakers.

Mr Clyde Prestowitz, a former Republican trade official, and confidant of a number of Clinton trade policymakers, insists there is little conflict in the administration. He says there are different perspectives, depending on the officials' briefs, because "you don't expect monolithic expressions" of opinion.

In fact, trade policy under President Clinton is little changed from the days of George Bush.

One way in which they are different, however, is that Mrs Carla Hills, President Bush's trade representative, imposed sanctions only reluctantly; her successor, Mr Mickey Kantor, believes US credibility suffered as a result.

If he is the "agnostic" he claims to be on trade policy, he is a complete atheist on the danger of trade war. He believes it will not happen. The players in the world economy have grown too interdependent – witness the administration's soul-searching on the question of renewing China's Most Favoured Nation trading status.

Gephardt (left), Kantor and Tyson: many cooks, but the broth seems as yet unspoiled

During the presidential campaign, Mr Clinton promised to make China's MFN status conditional on good behaviour on human rights and weapons transfers. As president, he has learned US aircraft makers, farmers and importers – as well as friends in Hong Kong – are dependent on good US-China business relations.

Mr Clinton is struggling to unearth a benign China strategy to honour his campaign pledge. On other fronts, there is no longer any hesitation.

The administration is determined to complete the Uruguay Round this year, if it can be done at all. The tactics are mostly in the hands of Mr Kantor and Sir Leon Brittan, the EC commissioner in charge of trade. The two experienced negotiators have developed a good working relationship, and showed in their recent agreement over government procurement that both possess the agility to succeed where others have not. The question has become how much they can achieve rather than whether.

So confident is the administration that even before a Uruguay Round agreement has been forged, it has begun to prepare for a new "Clinton Round" to deal with trade-related environmental issues, competition policy and technology.

On Nafta the administration is pushing to complete side agreements on labour and environment next month, despite polls which show the pact in deep trouble with voters. It has taken up the Bush vision of a hemispheric-wide free trade agreement. However, it also intends to strengthen ties with Asia through the Asia Pacific Economic Council. Among the 15 nations, efforts will be made to create a regional trade and investment framework, to achieve minimum standards harmonisation and forge common approaches to trade and investment.

Key to the administration's relations with Congress will be Congressman Richard Gephardt, the House Majority leader, and a respected adviser. In a pessimistic but thoughtful speech on Tuesday, Mr Gephardt warned of polarisation over Nafta because of emerging Republican opposition to the side agreements, necessary to its passage in Congress.

Angry, too, at the press and academics who "pigeonhole us as protectionists or worse," Mr Gephardt laid out a depressing vision of a changing world where the old economic rules – for example the linkage between wage and productivity growth – no longer automatically produce high-wage economies. The prescription for the future is fiscal responsibility, retraining, rebuilding, research and development. Trade policy, while only part of the larger economic mosaic, is "the inescapable link to the world economy".

His view of the necessity to manage trade in a complex world is shared by the trade thinkers in the administration. This is true particularly with regard to Japan, where, according to one senior trade official, "we have been very Japanese about Japan, reading off the same script".

There are few, if any, defectors from the "Japan is Different" school, and the decision to apply pressure for quantifiable goals akin to the recent semi-conductor agreement awaits a definitive strategy.

Mr Prestowitz scorns the view that economic adviser Laura D'Andrea Tyson, who selectively advocates industrial policy, and treasury secretary Lloyd Bentsen, a supposed free trader, represent clashing poles in the administration. He recalls that Mr Bentsen was the author of the controversial Super 301 legislation which empowers the US administration to take unilateral action against countries it sees as unfair traders.

EC positive about Nafta agreement

By Lionel Barber in Brussels

THE EC has given a broadly positive response to the North American Free Trade Agreement, while reserving the right to take steps to redress potential unfair trading practices.

The European Commission yesterday approved a study of the Nafta agreement between the US, Canada and Mexico.

The positive reaction was expected and matches the Commission's desire to avoid trade frictions with the US as it attempts to reach a successful conclusion of the Gatt Uruguay round by the end of the year.

The study also concludes that the EC's political relationship with Mexico will be affected by the free trade area. "As the Nafta draws Mexico more closely into the North American orbit, Mexico's relationship with the EC may gain importance as a counterweight" mainly because of the likely dynamic impact on the Mexican economy and its population.

The report identifies, however, a number of areas where it believes the Nafta agreement could lead to a loss of EC market share in the US and Canada.

- **Financial services and insurance:** The principal problem is the possibility that Nafta privileges could be limited to companies with majority holdings based inside the Nafta area.

"This would be a very important and unjustified discrimination against subsidiaries of companies' EC controlled subsidiaries in North America."

- **Rules of origin:** The EC raises concerns about rules applying to cars and textiles which are more restrictive than in Europe even if they are not actually contradictory to Gatt.
- **Services:** The Commission warns that a failure to reach a Gatt agreement covering services could lead to substantial shifts of business to the disadvantage of the EC. This applies particularly to potential business in Mexico.
- **Farm products:** The EC could suffer in sectors such as milk products, sugar and meat exports to the Mexican market.

It is particularly worried about a clause raising Mexican barriers to the same level as the US after a six year period.

Despite these worries, the Commission says the net effect of the Nafta agreement is likely to be globally positive and ought to lead to a big boost in trade with the EC.

The report concludes that if trade relations are more restrictive after the signature of the Nafta agreement, it should tackle these questions within the Gatt framework.

Brussels wins car tax probe

By Frances Williams in Geneva

THE governing council of the General Agreement on Tariffs and Trade yesterday agreed to set up an independent disputes panel to examine an EC allegation that US car taxes discriminate against European exports.

The US said it would accept the decision, which must be taken by consensus.

The EC claims that European car manufacturers are paying a disproportionate share of the three taxes – two of which penalise high fuel consumption, while the third is a luxury tax.

Environmental groups are threatening to make the issue another *casus belli* in their relations with Gatt, which they claim puts free trade above legitimate environmental concerns.

Brussels says the total revenue of the three taxes levied in 1991 was $558m, of which $494m fell on European cars. European manufacturers paid 100 per cent of penalties under the corporate average fuel economy (Cafe) law, 80 per cent of the "gas-guzzler" tax, and 80 per cent of the luxury tax, against a market share of just 4 per cent.

The EC argues that Cafe payments in particular discriminate against European luxury car manufacturers since they are based on the sales-weighted average fuel consumption of all models produced. Thus US producers who make cars across a range of sizes, and Japanese producers who manufacture mostly small, fuel-efficient cars, do not incur penalties.

The Gatt council failed to reach consensus on a demand by five Latin American banana producers for a panel to examine the EC's new banana import regime, which comes into force on July 1.

The producers, whose panel request under expedited procedures was supported by other Latin American countries, the US and Australia, argue that the regime unfairly discriminates against them.

However, their request was blocked by the EC, with backing by several Caribbean and African banana producers who will get preferential treatment under the new regime. The Community said it was still willing to search for a settlement to the long-running dispute. The Gatt council agreed to return to the matter later.

Separately, the EC was criticised for failing to settle compensation for countries hurt by its oilseeds subsidy policies, which are not covered by last November's bilateral deal between the EC and the US. There was also renewed criticism of punitive US levies on imported steel.

US 'drags heels' over Gatt rulings

By David Dodwell, World Trade Editor

THE US is putting in jeopardy the international trade dispute settlement system because of its "seriously deficient record" in complying with rulings against it, according to a US study*.

The study examined 207 complaints put before dispute settlement panels of the General Agreement on Tariffs and Trade during its 42-year history from 1948 to 1989.

Professor Robert Hudec and colleagues at the University of Minnesota conclude that "no resolution of the current malaise in Gatt legal affairs will be possible without a change in the basic US legal policy – some kind of reconciliation between the current US legal preoccupation with obtaining a fair deal, and the recognition of an obligation to use legal means to secure one".

The study nevertheless concludes that the Gatt system of settling international trade disputes "has produced many impressive successes". Four out of five valid complaints were dealt with successfully, it says.

A high percentage of the Gatt panel failures dealt with disputes over anti-dumping actions, or countervailing duties, the study finds. It suggests this could be due to the "typical arbitrariness" of the criteria for finding dumping, and the legal rigidity of measures, once taken.

The US has ignored Gatt panel rulings on four of the 14 occasions it has been found to be violating international trade rules – all four in the past decade.

Only Canada comes near, having ignored two out of nine rulings against it.

"Just as the US played a leading role in building the Gatt dispute settlement procedure to its present state of effectiveness, so the US has played the leading role in placing those accomplishments in jeopardy today," the study concludes.

It suggests US reluctance to accept Gatt rulings may be due to increasing use of Gatt to settle disputes, and the independence of its findings: "When a legal system starts pressing harder, the first to resist will be those who are accustomed to having their own way."

* *"A Statistical Profile of Gatt Dispute Settlement Cases, 1948-1989", by Hudec, Kennedy and Sgarbossa, in the Winter 1993 edition of the Minnesota Journal of Global Trade, University of Minnesota Law School.*

Lamont makes last-ditch bid to salvage job

By Philip Stephens, Political Editor, in Edinburgh

MR NORMAN Lamont last night made a last-ditch and probably futile bid to remain chancellor of the exchequer by offering a vigorous defence of his record along with an expression of regret for hardships inflicted on voters.

But as he issued what amounted to a public plea for prime ministerial clemency at the Scottish Conservative Conference in Edinburgh, senior political associates of Mr John Major were insisting that the prime minister would move Mr Lamont in a summer reshuffle.

With some of the most senior figures in the Conservative party now adamant that Mr Major must move quickly to reshape his team, one suggested that there was a small chance that Mr Lamont could be moved during the Whitsun parliamentary recess at the end of this month. The most likely dates, however, remain July or September.

At one point in his speech Mr Lamont appeared to acknowledge the gravity of the threat when he commented: "My job is unimportant – your jobs are what count. We have beaten inflation, let's go on and beat unemployment".

In a generally combative performance which brought only respectful applause from an audience which had earlier attacked the imposition in the budget of VAT on fuel, Mr Lamont insisted there had been no alternative to the harsh anti-inflation policies of the past two years.

Declaring that "the British recession is over", he said that he had never claimed credit for the resumption of economic growth. But he had laid the foundations for growth by getting inflation down to its lowest level for 25 years and interest rates to below the level of anywhere else in the EC.

Defending the tax increases in his March budget he said that reducing the government's borrowing requirement was essential to ensure the recovery was sustained. He added: "I accept my responsibility for everything that has happened over the last two years. The government should be judged on its record, and I rather hope I shall be judged on mine."

Offering a lengthy compendium of the decisions he had taken as chancellor, he claimed credit for helping to win last year's general election and for assisting Mr Major in securing the best treaty available for Britain in Maastricht. Calling for the Tory party to unite around Maastricht he warned: "The European question has the potential to split our party in two."

He concluded the government had to "keep our nerve when all our enemies want and expect us to lose it". That meant "sticking together when they want us to fall apart".

Economic viewpoint, Page 14

Shake-up for export promotion

MR MICHAEL Heseltine, Industry Secretary, yesterday produced his expected shake-up of his department's activities in promoting exports, currently costing the taxpayer £170m a year, writes Tony Jackson.

The main change is the separation of export promotion from trade policy within the Department of Trade and Industry.

Responsibility for bilateral trade would be brought together in a separate new division, Mr Heseltine said.

A new post has been created of Director General of Export Promotion. It will be filled by Mr Ray Mingay, at present the UK consul in Chicago. He will work with the Foreign Office and with up to 100 businessmen being seconded from the private sector to help with export promotion. Some 28 executives have been seconded to date.

In addition, export strategies are to be drawn up for the UK's top 80 export markets. At present the list extends only to the top 50.

Export promotion will also be split into two divisions, one covering Europe and the Americas, the other the Asia Pacific region including the Middle East and Africa.

John Murray Brown and Andrew Jack trace the tangled web of Polly Peck

Administrators seek Nadir's co-operation

THE administrators to Polly Peck yesterday called on Mr Asil Nadir to co-operate with their efforts to realise assets for creditors and shareholders to the group.

Mr Richard Stone, one of the joint administrators from accountants Coopers & Lybrand, said: "We would hope that he would facilitate negotiations currently underway to ensure a good deal goes through."

"Before Mr Nadir can ever regain his credibility he has got to give some pretty good explanations. We have been waiting three years for those," he said.

His comments came as negotiations continued for the stalled sales of Polly Peck's Cyprus and Turkish assets. The plan is to concentrate their marketing efforts on Turks and Turkish Cypriots in the region and in the UK and the US.

Discussions with the northern Cypriot finance minister were well advanced for permission to sell the businesses, before they were put on hold by Mr Nadir's decision to break his bail conditions and leave the UK.

The book value of the local assets has been put at about $40m. But disputes over ownership and control are likely to frustrate sales at least in the short-term.

A brochure distributed before PPI entered administration in October 1990 from Nadir Sirkeler Grubu – the Nadir Group of companies – shows properties including the Olive Tree Holiday Village company, owned by Mrs Bilge Nevsat, Mr Nadir's sister. There are three hotels and the Sunzest fruit business, which records show are all owned by PPI through Voyager UK.

But in the self-declared state of northern Cyprus, which is only recognised by Turkey, PPI is not registered as a company.

PPI's accounts list three subsidiaries in Cyprus: Sunzest Trading, Unipac Packaging Industries, the cardboard box plant in the Famagusta freeport, and Voyager Kibris, the hotel holding company.

But according to records of incorporation at the finance ministry, Voyager Kibris is owned 99 per cent owned by Voyager Mediterranean, a Turkish company on the mainland. Sunzest is owned 99 per cent by Unipac, while Unipac is owned by PPI through Voyager Ltd, an intermediary company on the Isle of Man. The administrators have also laid claim to ICP, which is owned by Inter Channel Pharmaceuticals, ultimately believed to be held through Jersey.

Mr Nadir has said publicly that the companies are owned by PPI. But the company's lawyers have obstructed all efforts by the administrators to gain control of the assets through a series of court injunctions.

As a result, the administrators have not been able to change the board of directors, a first step before any decision can be made on disposal. Mr Nadir is still a director of the northern Cyprus companies.

The Turkish Cypriot government has provided copies of title deeds and government contracts to the administrators, who were appointed to the company in October 1990.

Because of PPI's failure to pay around TL35-40bn in debts, the government has now placed a general lien (possession of property till debt discharged) on all the PPI and Nadir assets.

Local bankers say even with the injunctions lifted, it will not be easy to be find a buyer, given the likely Greek claims if there is a Cyprus settlement.

The fruit business is dependent on orchards which once belonged to Greek families. Three of the four PPI hotels are former Greek properties, now leased from the government. The leases are not transferable without government permission.

One banker in Nicosia says: "The perspective in Cyprus is that he was making his money in London and bringing it to Cyprus, while the city always assumed he was making huge sums in Cyprus and bringing it to London."

Suspected fraudsters could face jail pending trial

COURTS should give greater consideration to holding defendants in serious fraud cases in custody before trial, following the flight of Mr Asil Nadir to northern Cyprus, Mr George Staple, director of the Serious Fraud Office, said.

He was speaking at the presentation of the SFO's annual report – at which he announced that the conviction rate of the Serious Fraud Office had risen to 71 per cent of cases brought last year, writes John Mason.

He also defended the handling of the Nadir case by his department and the police.

Mr Staple said that bail conditions remain the responsibility of the courts, but after Mr Nadir's bail-breaking flight to northern Cyprus their attitude to long remands in custody could be expected to change.

"I would be surprised if in future, courts don't look more critically at these cases," he added.

Remands in custody for periods of about two years – which is the normal time it takes between arrest and trial in SFO cases – might be necessary in cases where there was a strong possibility of a defendant jumping bail and leaving the country to avoid trial, he said.

Mr Staple acknowledged that imprisoning defendants for such long periods before trial would cause concern. Lawyers responsed by saying that the Asil Nadir case was very rare and should not be used to alter the present law.

The SFO could try to further speed up its investigation and prosecution processes to cut the time spent in jail on remand. The arrests of such people might also be postponed until investigations had proceeded further, he said.

Prime minister discovers time is not on his side

John Major is under pressure to restore government morale, writes Philip Stephens

THE GOVERNMENT has time on its side. Mr John Major does not. That thought should guide the prime minister's response to last week's electoral catastrophe. If it does not, his friends fear he will be in trouble.

The contradiction is more apparent than real. The government has at least three, and at a pinch nearly four, years before it must face the electorate. The catalogue of errors during the past 12 months has come conveniently early in the parliament. The economic cycle is on the government's side. It is that perception which has informed the stance of those in his cabinet – let us call them the sanguine tendency – who have been urging Mr Major to sit tight. He can brush off the Newbury and county council election defeats as early-term blues, the argument runs. As long as he sticks to his agenda, economic recovery (and the mediocrity of the Labour opposition) will rescue him.

But the view from No 10 is decidely different. Mr Major is operating on a shorter timescale. Before he can face the voters in another general election the prime minister must satisfy another electorate – the Conservative MPs at Westminster – that he has a fair chance of winning it.

His party is shaken. The habit of government has left it out of touch with the real world. The scale of last week's defeat was beyond anything most Tory MPs had feared.

Mr Kenneth Clarke's frank assessment that the Conservatives are in a "dreadful hole" was not merely a reflection of his honesty. It was an inadvertent admission of real shock at the depths of the electorate's disenchantment.

His judgment is much closer to the prevailing mood on the backbenches than that of his colleagues in the sanguine tendency. In a party where panic has replaced unity as the most powerful reflex there is little inclination to trust the future to the healing balm of time.

The lesson being drawn by his friends is that Mr Major has 12 months – until next year's European elections – to restore his authority. If his party's fortunes have not improved by then the prime minister will be under serious threat.

The concern is reinforced by the corrosive influence of another Conservative tendency – the militant opponents of the Maastricht treaty.

Operating, like their left-wing antecedents on the Labour benches known as Militant Tendency, a party-within-a-party; the 25 to 30 irreconcilable opponents of all things European have now set as their objective the destruction of Mr Major.

The new Militant has no credible candidate to replace him. But, egged on by those in the patrician tendency who swear allegiance to Lady Thatcher, it will seize any chance to precipitate a challenge to the prime minister.

It is this sense of urgency that explains the concern of those around Mr Major that he should quickly replace Mr Norman Lamont. The prime minister's close political associates believe that Mr Lamont should be replaced as chancellor of the exchequer by September at the latest. Some would like Mr Major to make the change as soon as the recess at the end of this month.

They are briefing semi-openly against Mr Lamont not out of malice but in an attempt both to buttress Mr Major's resolve and to persuade the chancellor not to make a fuss.

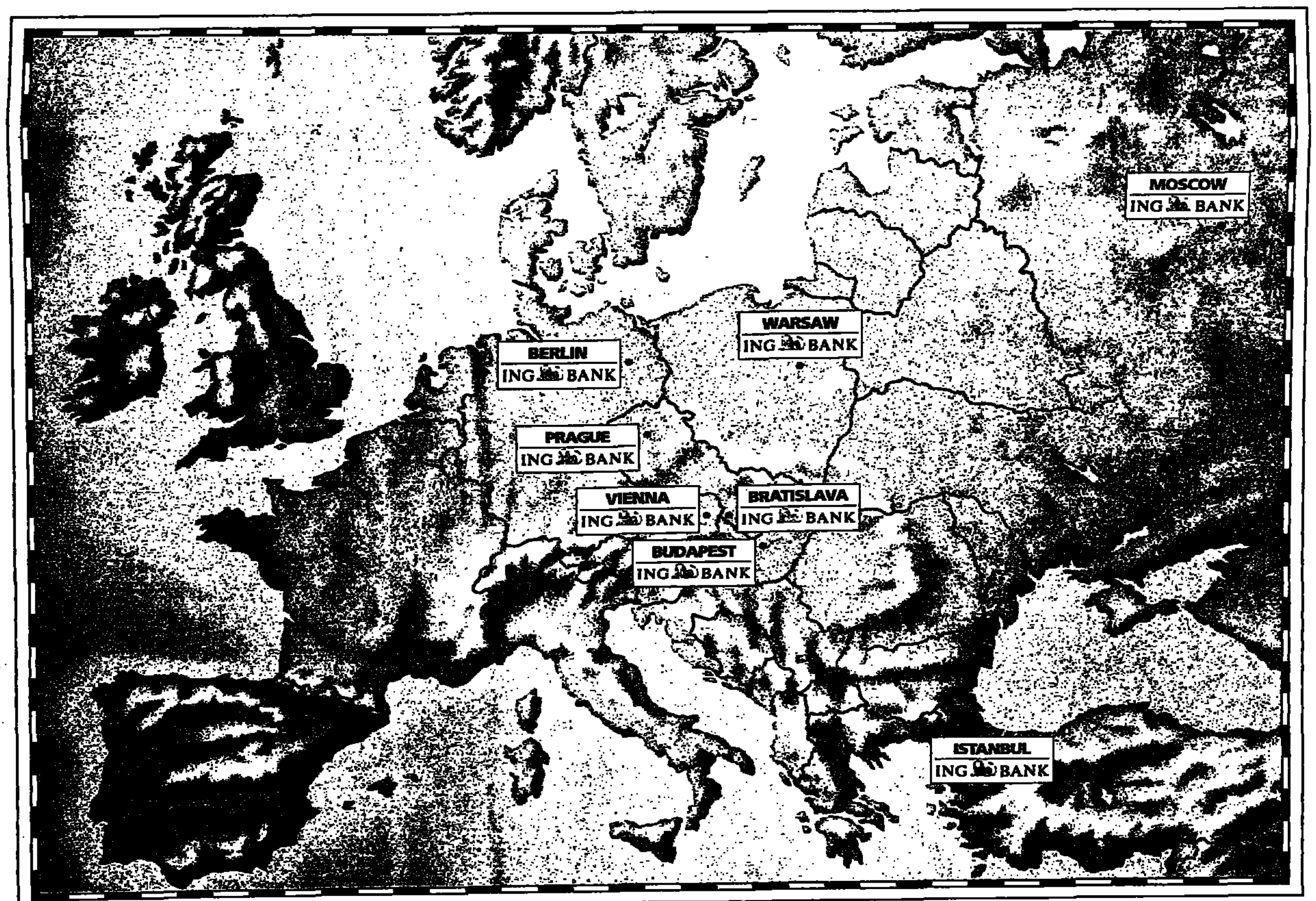
The prime minister's friends are under no illusion that a new face in No 11 will solve his problems. They are convinced that without one there is little prospect he will be able to confront the government's most dangerous weakness: the perception that it is incompetent.

Mr Major is said to be conscious of the need to restore coherence and, above all, consistency to the government's agenda. It cannot afford to pick fights – as with the miners and teaching unions – it has no chance of winning.

It must choose its ground carefully. The government's critics are not alone in wondering why it seems hellbent on privatising British Rail, or why deregulation of London buses is a priority.

Some of his friends are reminding the prime minister that practical and pragmatic policies are not by definition an admission of weakness: witness the relative tranquillity in Scotland secured by a post-Thatcherite policy of rule by consent. Mr Major is being urged to devote less attention to the ideological leftovers of the 1980s and more to policies which emphasise the break with the past. A credible industrial strategy and high-class public services must be near the top of his list.

The government cannot avoid harsh decisions in the summer public spending round. But an enthusiastic assault on the welfare state will not win the prime minister friends on the Tory backbenches or in the country. And Mr Major needs friends.



Tyneside gets aid plan but no reprieve

By Alison Smith in London and Chris Tighe on Tyneside

THERE WERE angry clashes in the House of Commons yesterday as the government defended its decision not to award a vital contract to the last working shipyard on Tyneside – once the world's leading shipbuilding centre.

Mr Tim Sainsbury, industry minister, told the House of Commons that the government "deeply regretted" the effect of the decision on the Swan Hunter yard and acknowledged it was likely to lead to "early job losses".

Mr Sainsbury said: "We weren't ordering two helicopter carriers, we were ordering one, and one yard or other sadly had to be the loser."

Later he told MPs: "There is no point in trying to prop up a yard to build ships for which there are no orders. Let's look forward and try and build on the industries of the future and not try and prop up the past."

Mr Robin Cook, opposition trade spokesman, warned: "It's not just Tyneside but the nation who will have their eyes on this government to see if they can rise to the gravity of that crisis."

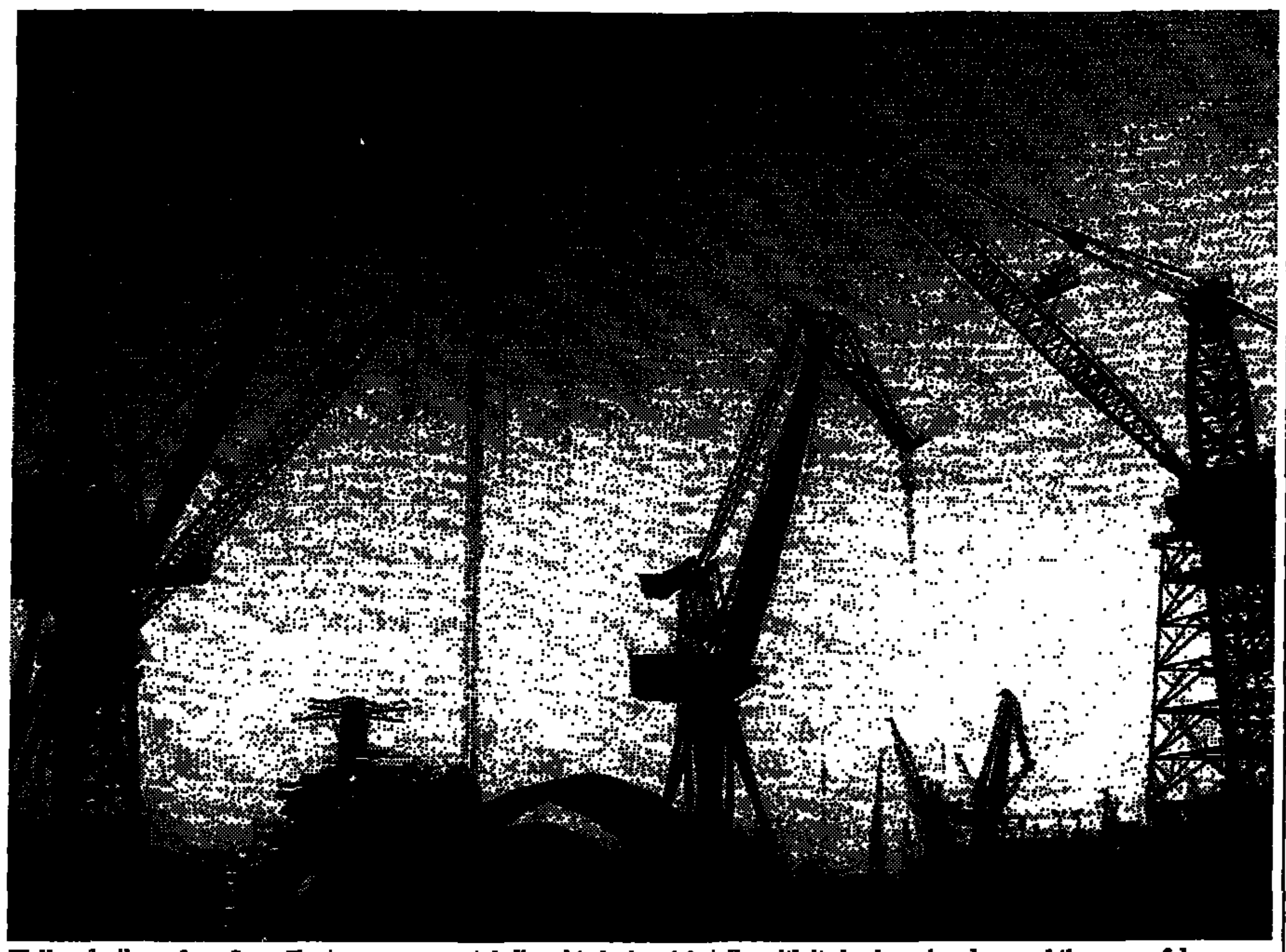
"Are we to understand that the government doesn't have a single proposal to try to keep open the last remaining shipbuilding yard on Tyneside?"

Ministers announced on Tuesday that the order for the Royal Navy's new 20,000-ton helicopter carrier was being placed with VSEL, of Barrow-in-Furness, Cumbria. The move left the Tyneside yard, which employs 2,200 people, just 18 months away from running out of work.

The government aid package announced yesterday included £2.5m industrial development, an "enhanced range" of employment services, and a new Enterprise Zone.

Local MP Mr Stephen Byers, replying to Mr Sainsbury, said: "The sense of despair and disappointment felt yesterday on Tyneside, today will turn to anger and a sense of betrayal at the complacent statement we've had from you."

Beside the Tyne the survivors of a shipbuilding industry which 30 years ago employed 44,000 were trying to work normally, but the mood of deep pessimism was palpable. As they digested the news that Swans had lost the fight for the helicopter carrier, there was also bewilderment and anger the company was so dramatically underbid – by more than £50m – by its rivals VSEL and Kvaerner Govan.



Wallsend: silence from Swan Hunter management, believed to be in crisis talks with its bankers, has deepened the sense of doom

"It's like asking for a Ferrari and getting a Lada," said Mr Eddie Darke, leader of the union campaign to win the order which management had described as crucial to the company's survival. The unions, which have worked closely with management in recent years to keep the business afloat, called for an inquiry into the tender gap.

Some on Tyneside speculated VSEL had subsidised its bid to wipe out a competitor. "VSEL have bought the order from the government", said North Tyneside council executive director Mr John Foster. VSEL dismissed this suggestion as nonsense.

Swans is the last remnant of a centuries-old industry in north east England which, at the turn of the century, in many years produced two out of every five ships built in the world. The company's survival was a matter of morale, as well as jobs, for an area which has fought to upgrade its surviving heavy industry and diversify into new areas.

Wales takes dragon's share of UK inward investment

By Tony Jackson

MR DAVID HUNT, the Welsh secretary, was banging the drum this week about overseas investment in the principality. The immediate occasion was the 20th anniversary of the first arrival in Wales of a Japanese company. More striking was the fact that last year, foreign direct investment in Wales was higher than the year before.

This seems a remarkable exception to the general trend. Foreign investment in Europe reached its peak at the end of the 1980s. Since then it has dropped sharply, both in the EC and in the UK overall. But in Wales, according to Mr Hunt's officials, the 1992 figure of £825m for planned investment by foreign companies was 13 per cent up on 1991 and more than twice the level of 1990.

With only 5 per cent of the population, Mr Hunt says, Wales has claimed 20 per cent of inward investment into the UK. Despite economic hammer blows in the 1980s inward investment has more than made up the difference. Last year, UK manufacturing output was 5 per cent higher than in 1979. Welsh output, says Mr Hunt, was 27 per cent higher.

FOREIGN INVESTMENT IN WALES

	Planned (£m)	Number of projects
1989	476	48
1990	402	77
1991	733	90
1992	825	83

Source: Welsh Office

In seeking to define Wales' success Mr Hunt points first to the quality of the workforce. "I think the work ethic is the most important factor. In Wales, we've always had a tradition of working hard and of long service with one employer. If you talk to a German company such as Bosch, they will say their productivity in Wales is higher than it is in Germany".

Other UK regions could make similar claims. A more revealing difference is the advantage the principality derives from the centralisation of government functions in the Welsh Office.

"We are the ultimate one-stop shop," Mr Hunt says. "An inward investor just has to come to me or one of my colleagues. He doesn't need to see anyone else. We bring everybody together, whether it's the Welsh Development Agency, the local authority, the Training and Enterprise Council or the university. And at the Welsh Office we have all the policies brought together – education, health, environment, industry, agriculture, transport and training".

It is clear that Mr Hunt takes an aggressive approach to marketing. "I'm about to fly off at the end of the month to North America, where we have some very good prospects. They all involve competition with other parts of Europe, not the UK. I'm generally fighting Ireland in particular, because they go out positively to win manufacturing, and Spain. Belgium is getting very positive about investment too, and parts of France are going out more savagely to win business.

"I believe we combine better than any other country in Europe. Led by the Secretary of State and the chairman of the Welsh Development Agency, we go into boardrooms anywhere in the world and argue the case for Wales. There aren't many other parts of the world that do that."

Britain in brief

Claims hit Lloyd's 255 syndicate

About 1,000 Names face far heavier than expected losses as claims from the windstorms, explosions and oil spills that shook Lloyd's in the late 1980s continue to mount.

Many of the Names – individuals whose assets back the insurance market – already face financial ruin, and could eventually be asked to pay an average of up to £300,000 each.

The Names were members of Rose Thomson Young syndicate 255, which was one of the leading underwriters of catastrophe reinsurance business in the late 1980s.

Warning over ships' officers

The current international shortage of trained and experienced ships' officers will become acute by the end of the decade, the UK Chamber of Shipping warned the Donaldson public inquiry.

According to evidence considered on day eight of the hearing, into the Braer tanker disaster, the global shortfall in officers is currently around 50,000. But by the year 2000 that gap could increase to 150,000 trained officers, a third of the total needed.

The chamber told Lord Donaldson that one way to improve the supply of skilled seafarers would be government help from Britain and other EC states to offset the high cost to companies of training officers.

Employers see rise in output

Wales, the West Midlands and the south-east of England are leading UK manufacturing industry's recovery from recession, according to the latest regional trends survey from economic consultancy Business Strategies and the Confederation of British Industry.

The survey found that manufacturing output rose in seven of the UK's 11 regions in the four months to April while orders were higher in six of the regions. Orders rose sharply in Wales and the West Midlands with smaller increases elsewhere.

More women join unions

The number of women joining trade unions in Britain rose last year as union membership fell to less than a third of the employed workforce, the latest statistics published in the Employment Gazette show.

In 1992 net female unionisation rose by 20,000, taking female union membership up to 3.7m. By contrast male unionisation fell by 382,000 to 5.8m. There has been a fall of 3.7m in the number of trade unionist since 1979.

Information worth £1.75bn

The electronic information business in the UK is now worth more than £1.75bn a year and is growing, although more slowly than in the past.

The third annual survey by the Confederation of Information Communication Industries, covering 1988 to 1991, shows that the value of the sector rose from £1.18bn to £1.75bn. Growth in 1991 was 6.4 per cent, the lowest annual rate of the period.

Job threat at British Coal

Up to two thirds of 6,000 core management and clerical jobs at British Coal could be lost under proposals put forward by a consultancy. Regional headquarters may be cut from five to two or three, and their power reduced.

The proposals, prepared by Resource Decision Systems and being circulated among senior corporation management, suggest more integration between the deep mine and opencast operations. British Coal ordered the report following its announcement last October to close 31 of its 50 pits. Although 12 have since been reprieved, few of them are thought to have a long future.

More women join unions

Information worth £1…

Job threat at British Coal

MANAGEMENT: MARKETING AND ADVERTISING

Design industry on show

The UK's Designers and Art Directors Association – familiarly known as D&AD – has acquired a sorry reputation for mismanagement in recent years. Still Britain's premier design trade body, it is now trying to polish its image.

D&AD's relatively new chairman – Anthony Simonds-Gooding has been in place for just a year – and president – Aziz Cami, of the London design agency The Partners – are concerned that industry has forgotten the importance of design as a core activity.

Cami's and Simonds-Gooding's efforts to raise D&AD's profile come together in an important London event next week.

Billed as "London's first festival to communicate to the business community and the general public the real value of creative excellence," D&AD will be hosting a variety of lectures and exhibits in a 20,000 sq ft marquee in Bedford Square. Touche Ross is one of a number of sponsors, which between them have chipped in £250,000.

It will be "a festival for green shoots, aimed at clients and at catching their imagination, to convince them of the importance of design excellence in the businesses, as well as a chance for ordinary consumers to see the way in which design is present throughout their lives," says Simonds-Gooding.

Visitors will be able to sample selections of the best in advertising and design from around the world. Some exhibits will then go on a 12-city global tour to promote the export potential of British design.

For Cami the festival has a dual purpose: "For years Britain has been seen as a centre of excellence in design and advertising. To keep that position we must be more aware of the competition, to stop us resting on our laurels. And the design industry needs to articulate to business the UK's home-grown talent, which needs to be exploited more by industry."

Gary Mead

Tickets and further details are available on 081 862 0202.

Baking soda, once a humble ingredient, has achieved new status. **Nikki Tait** and **Karen Zagor** report

Brushing up on tradition

Draw up a list of quintessential "1990s" products, and baking soda toothpaste would almost certainly be a top pick. The very name evokes homy memories and "back-to-basic" values. Baking soda - the main ingredient of which is bicarbonate of soda - has been a stalwart item in the traditional housewife's larder for decades. Its conventional uses range from helping cakes rise to keeping refrigerators odour-free. In image terms, no product could be further removed from Gucci bags, meals for the microwave and similar symbols of the 1980s-style yuppie.

But baking soda did not arrive in toothpaste form until 1989. That was when Church & Dwight, a quoted Princeton-based company and the world's largest producer of sodium bicarbonate, launched a line of baking soda dentifrice across the US under its "Arm & Hammer" trademark. It was, says the company, a natural product extension. Americans have used baking soda (mixed with water to form a paste) to clean their teeth for more than a century. Back in the 1920s, baking soda even carried a "seal of acceptance" from the American Dental Association, the ultimate endorsement for dental products.

Over the past four years, the product category has exploded. According to Nielsen Marketing Research, sales of baking soda dentifrice and toothpowder products totalled almost $100m (£65m) in the six months to mid-March, compared with $637m for the toothpaste and toothpowder market overall – a near-15 per cent share. While toothpaste sales generally advanced by just 6 per cent during this period, the baking soda segment soared by 65 per cent.

This heady expansion rate results partly from the entry of large consumer products companies into the baking soda segment. The likes of Unilever's Chesebrough-Pond's subsidiary and Colgate-Palmolive quickly decided that the product's inroads were too substantial to ignore, and launched "baking soda" versions of their traditional brands last year. Procter & Gamble, the overall dentifrice leader in the US, is currently in the throes of a nationwide launch of a baking soda version of Crest.

In the process, these consumer product juggernauts have partially eliminated the higher margins which the original baking soda toothpaste manufacturers were eager to extract. Today, most US supermarkets carry similar sizes of conventional and baking soda dentifrices at the same price. A 6.4-ounce tube of Crest sells for $2.39, whether in baking soda or conventional form, for example.

Arm & Hammer products, however, have clung on to their premium. In the face of competition from the likes of Procter & Gamble, the company has carefully stressed that its formulation uses more baking soda than its rivals – "anything from two to three times", says Davis Dickinson, marketing director. And despite the higher pricing, Arm & Hammer – nothing to do with the legendary oil tycoon Armand Hammer until he ended confusion by buying a small stake in Church & Dwight in 1986 – still commands a 63.5 per cent share of the total baking soda dentifrice market, although its sales growth rate over the past six months of about 20 per cent has been below that of baking soda toothpastes generally.

However wholesome the baking soda concept may sound, the irony is that these toothpastes have no proven advantage over traditional rivals. Their impressive sales gains are as much a triumph of clever marketing as inherent product advantage.

None of the baking soda products which have hit the supermarket shelves over the past four years has carried the American Dental Association "seal of acceptance", for example, although Arm & Hammer says that it has been talking to the Chicago-based organisation since 1989. Disciples argue that baking soda acts as a mild abrasive on teeth, cuts down on plaque acid and generally deodorises the mouth. But the ADA has not been convinced: "We've not seen sufficient data to prove the effectiveness of baking soda in toothpaste," it says.

While it is true that the Crest baking soda product will carry an ADA seal, this is primarily because of Crest's formulation, not because of the baking soda element. "We just got the ADA seal for effective cavity prevention. We had to submit separately to the ADA for Crest baking soda," say the promoters. "There's no proven therapeutic benefit to baking soda, but there is for Crest."

So how has baking soda toothpaste gained such an impressive hold in the market? From day one, Arm & Hammer has sold heavily on the boast that "two out of three dentists and hygienists recommend brushing with baking soda or a baking soda toothpaste".

The assertion, says the company, is based on a national, and regularly updated, survey. Anecdotally, it seems to be partially supported. Many US dentists and hygienists do recommend baking soda to their patients even though they know that its proven efficacy is limited.

"I don't know how effective the toothpaste is, but baking soda itself is one of the few things you can use at home to remove light stains, like tea stains, without hurting your teeth," says Michelle Freemark, a dental hygienist. "Baking soda doesn't always work, but a lot of the other whitening products on the market are pretty abrasive and will hurt you. I have had some people who seem to think the toothpaste works."

The manufacturers are more than happy to support this impression. "The most important quality is that it makes the mouth feel clean – like you've just left the dentist's office," says Dickinson.

Some of the claims by the toothpaste makers nevertheless seem slightly far-fetched. "Dentists recognise that when consumers enjoy the taste of a toothpaste they brush their teeth more – we see this as a flavour-option," says Procter & Gamble.

Retorts Freemark: "In my opinion, if someone's a lousy brusher to start with, a better-tasting toothpaste probably won't make them change."

Vimto woos the home front

Philip Rawstorne on a soft drink's campaign to widen its appeal

Few brands achieve international status without first securing a leading position in their national market. Vimto, a fruit drink made by Manchester-based JN Nichols, is one of them.

Dwarfed by Coca-Cola & Schweppes Beverages and Britvic – the industry leaders – the Vimto brand has a mere 2 per cent of the UK market. With the bulk of sales still in northern England and Scotland, it is probably better known in Saudi Arabia and the Sudan than it is in Surrey and Sussex.

As this month's new television advertising campaign underlines, however, Nichols is intent on better exploiting at home the potential which has so long been realised abroad.

British troops sent to the outposts of the empire in the 1920s and 1930s were among the first distributors of Lancashire herbalist John Noel Nichols's concoction of blackcurrant, raspberry, grape and other fruit juices, and herbs.

Since then a glass of Vimto and a handful of dates has become the traditional nightly sustenance during the Ramadan fast in many Middle East countries – where the same family firms have acted as agents since the early 1930s.

Across Africa, from the Gambia and Ivory Coast in the west to Kenya and Uganda in the east, demand for Vimto is still growing. It has recently been launched in Egypt and revived in Mozambique; shipped into Canada and Guyana; and distributed in new markets in South Africa, Cyprus and Spain.

The brand remains a firm favourite in India and Pakistan. Vimto reaped the benefit of its early presence in overseas markets, such as the Middle East, as local consumer spending power began to increase in the 1960s and 1970s. The company's UK bottling and canning plants could barely keep pace with export demand for the company's cordial and carbonate products.

By 1980 when Nichols bought Solent Canners – the company's packager for the Middle East market – exports accounted for nearly 70 per cent of volume sales.

Nichols first turned its attention to the development of its home market after several overseas agents, which had long handled marketing and distribution, began to make the drink locally from concentrate shipped from the UK. As a result Nichols found itself with spare packaging capacity and, as managing director John Nichols, a grandson of the company's founder, puts it: "We had a brand that was international but still had a long way to go nationally."

With an enlarged sales force, expansion proved relatively easy in the rest of northern England and Scotland. Moving the brand south has been more difficult. "Multiple grocers saw Vimto as a regional brand and have taken a lot of persuading to put it on their shelves throughout the country," says Nichols.

But persistence is paying off. The company has improved Vimto's appeal as an alternative to the ubiquitous colas by redesigning its cans and cordial labels, which had been largely unchanged for decades. It has introduced diet and low-sugar versions of the drink and a variety of pack sizes.

The company has also formed a distribution alliance with AG Barr, the independent producer of Tizer and Irn-Bru; and entered the vending machines market.

National visibility has been raised by advertising on BSkyB and Channel 4, as well as on regional television. Sponsorship and promotional campaigns have been widely used in the push to extend market boundaries.

Over the past five years, Vimto has been one of the fastest-growing soft drinks brands. Carbonate sales have risen at more than three times the growth rate of the market; and cordial sales have risen twice as fast.

Although Nichols admits the drink is a little too sweet for his taste, the company may soon have the national status to match its reputation abroad.

Glaxo cures R&D gap

Concerns about the enormous responsibilities of Dr Richard Sykes, Glaxo's research and development director and recently appointed chief executive, were partly met yesterday when Dr Goran Ando was appointed R&D director of Glaxo group research, the UK research arm and the company's largest research arm.

Analysts had believed that it was impossible for one man to cope as chief executive and be responsible for R&D. Glaxo last year spent nearly £600m on R&D – more than any other pharmaceutical company. It has research sites in the UK, US, Italy, France and Spain and employs more than 6,800 R&D specialists.

Dr Ando, who joined Glaxo in 1989 as medical director, was made deputy R&D director in March last year. He was responsible for co-ordinating all development, medical and regulatory functions in the company's international pharmaceutical development programmes. He retains responsibility for world-wide drug development.

A 44-year-old Swede, Dr Ando was previously at Astra, the Swedish group, where he was president of the group research centre. Before that he held positions at Pfizer and Bristol-Myers.

Dr Sykes retains the chairmanship of Glaxo group research as well as responsibility for R&D on the Glaxo board.

Blunt-talker at Hartstone

Hartstone Group, the hosiery and leather goods company which has seen its share price tumble from 272p in March to a low of 86p last night, has appointed Shaun Dowling, a non-executive director, as deputy chairman.

The announcement comes just weeks before the company is expected to report its annual profits for the year to March 31. About two months ago, Hartstone warned of expected exceptional charges of £8.5m relating to the restructuring of its recently acquired Franch and Spanish hosiery companies.

Dowling, aged 59 and reported to be a blunt-talker, is a former director of Guinness and holds directorships at ML Holdings and Enterprise Computer, among others.

He is expected to give greater focus to the group's operational development, an area in which the recently acquisitive Hartstone has come under close scrutiny.

Dowling has been a non-executive director of Hartstone since September 1991.

The City welcomed the appointment although some analysts speculated that Dowling's post was the result of institutional pressure for changes following the sharp decline in the share price.

However, a company spokesman denied that the group had come under pressure from shareholders.

Hillsdown's US accent

Bridget Macaskill, president and chief operating officer of US mutual fund manager Oppenheimer Management Corporation, is joining the board of Hillsdown, the poultry to upholstery group, as its third non-executive director.

Sir John Nott, who has recently taken over as executive chairman, says that "90 per cent of our ultimate customers are women, but that is not why she was selected." Rather, she emerged as the strongest candidate after a search by headhunters.

Macaskill, 44 and English, spent ten years with Unigate until 1982, latterly as marketing director for St Ivel, with responsibility for chilled products, liquid milk and fruit juice. She had made an early mark by suggesting to an initially highly sceptical boss that Unigate should deliver orange juice on the daily milk round. Not much later she was running the new fruit juice division.

In 1982 she then moved with her husband, who works for Bankers Trust, to New York, and picked up a job as vice president of marketing for Oppenheimer, then part of Mercantile House. Moving onto the general management side, she had risen to chief operating officer by the time Oppenheimer bought itself out from the collapsed British & Commonwealth empire. Oppenheimer Management Corporation currently manages $22bn of assets.

Macaskill believes that her awareness, as a consumer, of American trends in the food business - salads, prepared foods - will justify her presence on the Hillsdown board. She adds that her experience of running a US business may also prove useful.

Sir John, who acknowledges that Hillsdown has been "light" on non-executives since he took on the role of executive chairman and Tony Brice, a former Hillsdown executive, retired at the agm, says that the group will probably be looking for another non-exec. "It has not finally been decided whether Sir Harry Solomon [the co-founder of Hillsdown who has recently stepped down from the chairmanship] will be seen as a true non-executive director."

■ The new calm at ARTHUR SHAW, the Willenhall, West Midlands, building products group, was ruffled yesterday when it was announced that John Walmsley, the chief executive, had left the company.

But his departure apparently has nothing to do with the boardroom rows which had led to rebel shareholders demanding extraordinary general meetings, the movement of chairmen in and out, and High Court proceedings about who should be a director. Those proceedings were only settled last month.

The reason simply was that Walmsley prefers Sweden to Willenhall. Finance director Lindsay Melvin explained that Walmsley married a Swede two years ago and bought a house in Sweden at the beginning of this year and, aged 54, is now retiring.

Consequently, Brian Phillips, a former managing director, and chairman since March, is assuming the role of chief executive as well and the company will be looking for another non-executive director.

Apart from Phillips and Melvin, the only other board member is Ian Tickler, who, with his family and friends, controls 49 per cent of the Arthur Shaw equity.

■ Tony Reynolds, formerly md of Crawford Door (UK), has been appointed md of ESCO CARPET TILES (UK), part of DLW AG.

■ Joseph Nellis has been appointed CRANFIELD School of Management's first professor of international management economics.

■ Paul Rew, formerly company secretary at Laura Ashley who joined LONDON INTERNATIONAL GROUP as group director of legal services in January, has also been appointed company secretary on the retirement of Alan Marshall.

■ Richard Coitino is appointed bearing division director of NSK BEARINGS EUROPE in succession to Kanji Tamaru who is to return to Japan. At the same time, David Smith is promoted to human resources director.

■ Roger Daniels, company secretary of Pilkington, has been appointed group company secretary at HP BULMER HOLDINGS; his place at PILKINGTON is taken by David Bricknell, group legal adviser.

TECHNOLOGY

Caught in the Internet

***Electronic message systems that span the globe could be as useful as the telephone, says* Geof Wheelwright**

International electronic mail systems are no longer the plaything of hackers and bug-eyed computer enthusiasts. They are emerging as credible business tools that enable individuals and companies to communicate cheaply and efficiently around the globe.

Like the in-house electronic mail networks that have become a fact of business life in many companies, these systems provide a means of sending and receiving messages via personal computers or computer terminals. With global electronic mail services, however, messages can be sent across the world or across town.

For evidence of the rising popularity of electronic mail, a look at the business cards collected from clients or contacts lately should be enough. The chances are that some of them include electronic mail "addresses", along with telephone and facsimile numbers.

The advantages of electronic mail are numerous. It can eliminate hours of frustrating "telephone tag" and enable people to communicate across timezones with ease. It also sidesteps busy facsimile machines that spew out piles of paper which are often misplaced or misdirected. With electronic mail, the message appears directly upon the computer screen on the desk of the individual being contacted.

The biggest roadblock to the success of electronic mail in the past has been the lack of a "critical mass" of users. Although dozens of personal computer electronic mail services are available, until recently they were not linked. This meant that to reach somebody it was necessary to subscribe to the same electronic messaging system.

Over the past couple of years, however, many electronic mail systems have started "talking" to one another. The mechanism for this is "Internet" – a low-cost and efficient link between electronic mail services worldwide. The Internet links an estimated 1.5m computers over 10,000 networks in 50 countries, serving about 6m users.

Internet enthusiast Brendan P Kehoe – whose popular guide to using the Internet, "Zen and the Art of the Internet" (Prentice-Hall), is a "must-read" for all new users – describes the Internet as a large "network of networks". He points out that there is no single network. "Regional networks like SuraNet, PrepNet and NearNet are all interconnected or inter-networked together," he says. "And all this activity takes place in real-time."

The Internet resembles a computer network co-operative. There is no central authority that oversees it and rules are largely informal. Its roots lie in a US Defence Department project begun in the early 1970s to enable US universities, national laboratories and government agencies to share information.

Over the past 20 years it has mushroomed to include regional, corporate and public networks, including commercial electronic mail systems. "People conduct their love life over the Internet, their hobbies and their interests. They argue politics and engage in all kinds of business," says Mitch Kapor, co-founder of the Electronic Frontier Foundation in Cambridge, Massachusetts, which promotes awareness of the on-line world.

"Internet is doubling annually in users, networks, computers and traffic," says Vinton Cerf, president of the Internet Society, a volunteer secretariat that helps administer the network. "It is growing faster than any other telecommunications systems ever built, including the telephone network." Commercial users now outnumber academic and government Internet users and by 1998, Cerf predicts, the system will serve over 100m users.

Despite the anarchic nature of its structure, the basics of using Internet communications are simple. All that is needed is a computer modem, a communications software package and a subscription to an on-line information service linked to the Internet. Public access to the Internet is provided by popular services such as Compuserve, MCI mail and Applelink.

Subscription costs range from about $9 (£5.80) to $20 per month, depending upon the service and varying according to the information services offered. Once a subscription to one of these services is obtained, the charge for sending an electronic messages is generally only a few pennies, depending upon the message length and the time it takes to transmit. In most places a local telephone call will connect you to the system.

A subscription to Compuserve, one of the most widely used on-line information services, costs $8.95 per month. Compuserve users simply dial a local access number with the modem, log on and type GO MAIL to enter the message system. The charge for reading or sending Internet messages is 15 cents for the first 7.5KBytes (about 900 words) and 5 cents per additional 2.5KBytes (about 300 words) after that.

The key to sending an Internet message lies in the Internet address. A typical Internet address might be: jsmith@cix.compulink.co.uk. The elements of the address are not particularly cryptic – the name of the recipient is J Smith and he is a subscriber at (or @) CIX, the full name of which is Compulink. The last two designations show that Compulink is a company, rather than an educational establishment or government agency, that resides in the UK.

One drawback is that it is not always easy to find Internet addresses. Although some systems offer international directories of their electronic mail users, there is no central directory. Critics say the Internet, originally designed for use in scientific and education applications, does not have security and ease-of-use features that commercial users want. At peak business hours, promptness of service on the Internet can also be a problem.

Despite its limitations, the Internet is an inexpensive way of sending and receiving electronic messages. Doing business without access to such electronic mail systems is soon likely to be as rare as the office without a telephone.

High-speed information

The *Internet is the precursor* of the high-speed "information superhighways" that President *Bill Clinton* hopes to see built in the US to enable businesses and individuals to transmit data at speeds of up to a gigabyte per second.

Although these highways are not yet in place, the Internet is providing a glimpse of what can be expected in the 21st century.

In recent congressional testimony, Vinton Cerf, president of the Internet Society, compared this emerging "information infrastructure" with the transportation system: "The computer is the automobile of this emerging information infrastructure. Laptops are the sports cars; desktops are the sedans; supercomputers are the Formula One racing engines; and gigantic mainframe data storage systems are the 18-wheelers. The local access networks of the Internet are the neighbourhood streets; high-capacity computer networks are the highways; switching systems form the complex interchanges.

"Just as vehicles on the road can be filled with an endless variety of people and products performing a multitude of services, software applications fill the empty computing vessels to create the new products and services of the information infrastructure."

Cerf offered examples of how the Internet is already being used:

- **A professor at the University of *Southern Louisiana* offered to teach a class through electronic mail on the Internet; 15,000 people asked to join the class.**
- **When President Clinton and Vice-President Gore visited Silicon Valley to launch their technology policy, the audio and video – as well as the text – of their speeches were "multicast" on the Internet to hundreds of sites.**
- **Wellington, New Zealand, is using Internet to promote its tourist industry.**
- **A blind student uses Internet to access libraries around the world that can provide on-line versions of Shakespeare's plays which can be converted to speech by his desktop computer.**

Louise Kehoe

Hours are lost tinkering with the PC, argues Jonathan Constant

Trap set for the office time waster

Far from making the modern office worker more productive, the personal computer has become a highly expensive time waster. Playing with on-screen graphics, tinkering with layouts and experimenting with fonts is an international obsession – and a costly one – according to new studies.

The average PC user wastes 5.1 hours every week, reports SBT Accounting Systems, the US software house. Its survey revealed that 5bn hours may be lost in the US each year; based on the average white-collar wage this equates to $100bn (£67bn), or 2 per cent of its GDP.

Placing so much power on the desktop can be counter-productive. In the US, white-collar productivity increased by just 0.2 per cent a year during the 1980s, despite having the world's highest number of PCs per head.

In Japan, however, efficiency levels are matched by one of the lowest desktop investments in the developed world, according to Barry Graham of Xephon, a UK consultancy. Last year PCs accounted for 37 per cent of Japanese hardware expenditure, compared with 53 per cent in the UK and 47 per cent in Germany. "The reason is cultural. Managers in Japan and Germany often consider it beneath them to be seen at a screen," explained Graham.

On-screen time wasting now accounts for up to 25 per cent of a PC user's time, estimates Xephon, which concludes that however unfashionable, the mainframe may still be the most secure and cost-effective option. And yet many managers continue to download applications on to the desktop, unaware of the expenses that will be incurred. Before they do so, they must consider the consequences, advises ICL's corporate systems business manager Peter Slavid.

"PCs, Unix systems and mainframes all have an important role to play as part of the system. But where people go wrong is making radical changes in any direction just because the hardware looks cheap," he says.

A survey by KPMG Management Consulting revealed that the total price for owning a PC, including "hidden" costs, could be as high as £5,900 a year. Even by Xephon's more conservative estimate, networked PCs cost businesses between £10,300 and £15,500 for every end-user over five years. By comparison, the mainframe works out at a mere £6,000 to £6,750 per user.

Managers are losing control, concludes KPMG. It has discovered that "over 90 per cent of total workstation ownership costs are not being actively managed". This includes what KPMG terms "local workstation gurus". These people are to be found in every office, and are well-versed in PCs. Every time a less-experienced user has a problem, it is the "gurus" who are called upon to help, distracting them from their own work. "Unless management recognises and actively manages this resource, there is a grave danger that a significant degree of the organisation's resources will continue to run out of control," warns KPMG.

Such findings are seen by Xephon as proof that downsizing is not the cost-effective solution many businesses assume it to be. Computer suppliers such as ICL argue that cost is not the only issue. "All this proves is that you can't just dump PCs on people's desks and hope to get an efficient system out of it," says Slavid.

"The objective is an effective system, and you need to avoid being seduced into restructuring by the availability of cheap power on the desktop. It's only cheap if people make good use of it."

Graham agrees, but insists that even if the cost issue is ignored, mainframes still make more sense. By acting as a centralised point of control they can even offer a solution to the time-wasting temptation. "Mainframes eliminate the time taken to make back-up copies, for instance, because this is done automatically, and they can also control access to data," he says.

"This can restrict the amount of time a clerk has the information, so they have no choice but to get the job done efficiently. If they exceed the time limit, questions will be asked."

Opera

Reimann's 'Das Schloss'

Aribert Reimann's Kafka opera, *Das Schloss* (The Castle), could hardly have made a more auspicious start in life. Its premiere at the Berlin Festival last September has been quickly followed by two other productions, most recently in Berne. And yet the work cannot be described as "popular". It makes extreme demands on an audience's concentration and the resources of a provincial theatre. On that basis, the Berne ensemble can be proud of its achievement – even if its courage sometimes outweighed its mastery of Reimann's music.

In Berlin, *Das Schloss* came across as a bleak, three-hour parable of xenophobia and bureaucracy, draped in music of elaborate invention. I found myself admiring it a lot less in Berne. Kafka's novel about K – the figure who arrives in a wintry village with a commission to work as land-surveyor at the Castle – does not lend itself easily to the theatre.

K himself does not have any personality (in the novel his speech is all indirect): we simply see him reacting passively to the rebuffs and betrayals of a succession of colourful, heartless characters. Nor is there much dramatic development: K's predicament at the end is the same as at the start. Reimann organises his material into nine "frames" capturing situations in the novel – but music and dialogue offer no more than different slants to the same picture.

Eike Gramss' production, designed by Eberhard Matthies and Renate Schmitzer, placed the work somewhere between Theatre of the Absurd, black comedy and philosophical fable – with a few Expressionist touches thrown in for good measure. The permanent set consisted of a bare white room, with mysterious side entrances and a backdrop opening up to reveal sky and snow. Distantly visible in the first and last scenes was the Castle itself, looking more like a motel than a Kafkaesque tower. Costumes were 20th century middle-European, with K resembling a cross between a shaven-headed Dutchman and the universal hobo.

Jan Frank Danckaert missed the air of weary puzzlement essential to the role (memorably created by Wolfgang Schöne in Berlin), but the supporting cast, led by Gottfried Driesch's farcical Mayor, Elisabeth Hornung's witch-like Landlady and Uwe Schönbeck's enigmatic Bürgel, offered a collection of richly contrasted character-portraits.

The orchestral performance under Andreas Delfs would have benefitted from greater textural clarity and more incisive brass perorations – but the chamber-music sophistication of Reimann's instrumental writing (the opposite, as in so much of this opera, to *Lear*) was faithfully recreated.

Andrew Clark

Cinema/Nigel Andrews

Monsters, every which way

After *Honeymoon In Vegas*, *Indecent Proposal*: and the evidence is mounting up. The only place Hollywood sees as more corrupt than itself is Las Vegas. There, blazed by lights and buzzed by helicopter shots, people who hazard their money end up losing their souls and/or spouses.

Our last trip to the Nevada sin-bin saw Nicolas Cage lose Sarah Jessica Parker to gangster James Caan. This time Woody Harrelson and Demi Moore are the couple in straitened circs and Robert Redford is the flashing teeth with the overflowing wallet. One million dollars he offers to Mr and Mrs Harrelson for a night with Demi. Afterwards the lovebirds can rebuild their recession-racked nest – he an architect, she an estate agent – and forget about one benighted fling with Mr Golden-haired Mephistopheles.

Or can they? The first and far livelier half of *Indecent Proposal* is directed by Adrian Lyne with the paparazzo relish he brought to *Fatal Attraction*. Lyne turns every close-up into a flashbulb snap of the exposed soul, as hero and heroine wander a casino where guilt-edged insecurity is the name of the game and where a magnifying camera turns even the roulette wheel's bumping silver ball into a boulder from hell. Also from hell, but the suaver section, is Mr Redford: slipstreamed into the story in a series of glancing-eyed reaction shots, a debonair Devil in a dinner jacket.

But as a movie story, *Indecent Proposal* has a built-in-flaw. It is over with the delivery of its moral punchline. "Can money buy love?" Yes. End of story. But obliged to fill a two-hour running time, Lyne and screenwriter Amy Holden Jones pretend that the pay-off is merely a premise. They then stretch the plot for a further hour, turning one night's sex-for-hire into a flimsily overextended romance between fallen wife and Faustian billionaire.

The truly interesting question – does the damage to a marriage linger even after the interloper has loved and left? – is squashed by the homewrecker's continued presence as romantic threat. A potentially many-sided moral conundrum becomes a humdrum emotional triangle.

The cast compounds the sense of bathos. *Fatal Attraction* had Glenn Close using the whip on an equally short-distance plot idea, but who could begrudge the extra show-gallops from a mad Medusa with peroxide mane? *Indecent Proposal* has dull Woody Harrelson and three-faces

INDECENT PROPOSAL (15)
Adrian Lyne

LEOLO (18)
Jean-Claude Lauzon

BRAINDEAD (18)
Peter Jackson

MISTRESS (15)
Barry Primus

IN THE SOUP
Alexandre Rockwell

WILD WEST (15)
David Attwood

Demi Moore (winsome, more winsome, lachrymose). And though Redford spellbinds when proposing the hellish bargain – a golden boy turned tarnished angel – even he blands out under the obligation to canter endlessly round the same whimsical-romantic course.

*

Jean-Claude Lauzon's rude, funny and anarchic *Léolo* is a portrait of the artist as a mad young fantasist. "People think I'm French-Canadian" narrates the title teenager (Maxime Collin), Lauzon's fanciful sketch of himself as a boy; "but because I dream, I'm not." No, in his dreams he is Sicilian. His mother conceived him from a crate of tomatoes (sic) which caught a stray peasant's flying seed.

Now Léolo lives in Montreal with a lustful Grandpa who schemes to seduce a young neighbour, a weakling older brother taking body-building lessons and a mother from whom Léolo conceals his own delinquent tendencies. These include masturbating into pieces of liver – clearly no part of the food-chain is safe from this family's reproductive habits – and concocting schemes to murder grandpa. These include a noose-and-pulley apparatus designed to drag the old boy out of his bathtub and hang him. (It fails to work.)

Writer-director Lauzon's artistic noose-and-pulley system is at work dragging Fellini, Philip Roth and several others out of their bathtubs. Where his last film *Night Zoo* was a dry-run *film noir*, inspiration in *Léolo* is a matter of violent, splashy raids. Here some raw sex from the Jewish-American *bildungsroman* tradition; here some *Amarcord*-ish family caricature; and as coup de grâce – or dis-*grâce* – a group cat-raping scene which may have entire audiences fainting clean away.

Creative energy and taboo-bashing, though, have a history of honourable fellowship in cinema. *Léolo* makes our mouths gape with the spectacle of the forbidden and then crams more dubious goodies into the defenceless jaws. The film's chief fault is its determination to find glamour and comedy in madness. (The family's visits to asylum-penned Grandpa become awaydays to Arcady.) Its virtue is its honesty about the myths of boyhood innocence.

Not even Léolo, though, had a family life quite like that depicted in *Braindead*. Have you ever watched your loved ones turn into zombies, mutants and man-eating multiple amputees – and then felt bound to add to the carnage? Such is the destiny of young Lionel (Timothy Balme) in this black comedy *cum* splatter epic from New Zealand's Peter Jackson of *Bad Taste* and *Meet The Feebles*.

One moment Lionel's mother is the life and soul of the local W.I, the next she is bitten by a rare monkey and comes apart at the seams. The boy's duty is plain. Glue back that cheek-flap. Staunch that fountaining abscess. And when Mum, plus most of the town, turn into deformed and slavering cannibals, wield everything from a horse hypodermic to a rotary mower to stop them running amok.

Holding a handkerchief to your mouth, you should marvel at the special effects. The call-sheet of consumer durables on this production, claim the press notes, included pork fat, polyfoam, human hair, ultra-slime (sic) and "hundreds of litres of maple syrup". It makes *The Evil Dead* look like *Mrs Miniver*. And it is horrendously funny. Once again the cinema looks squarely at the forbidden and proves that with enough jet-black comic propulsion, nervous laughter can launch itself into liberating hilarity.

Mistress, a comedy about movie-making, gives us different monsters. Called film financiers, they batten onto innocent film-maker Marvin (Robert Wuhl), who is hoping to resuscitate a long-neglected script about a suicidal painter. Thanks to a producer friend (Martin Landau), Marvin's backers soon include a mad Jew (Eli Wallach), a sleaze merchant from Outer Sunset (Robert De Niro) and a big ego from Little Italy (Danny Aiello). And their girlfriends. These must all have leading parts. Hence this film's title.

But we have seen it all in *The Player*, and director Barry Primus, alas, is no Robert Altman. *Mistress* advances on stepping-stones of well-worn Tinseltown aperçus to lower, ever more lacklustre things. The comedy needed more fizz, the malice more momentum.

These commodities are plentiful in Alexandre Rockwell's *In The Soup*. But this lissom lampoon will be seen only by three men and a dog at the National Film Theatre. Rockwell proposes a young Italian-American film-maker (Steve Buscemi) embroiled with an older producer (Seymour Cassel). Since Cassel's life is in hock to the Mafia, he furnishes wilder and more interesting material than the boy's script. But as the Mob keep knocking on the door, when does stimulating source material turn into serious life-endangerment?

Rockwell shows Olympic skill in jumping from mood to mood, from batty vignette (singing Italian landlords) to even battier vignette (TV quiz game called *The Naked Truth* in which contestants are quizzed *au naturel*). The film may get – cross fingers – a wider release later in the year.

Finally, *Wild West*: an example of that noble British genre that we might call Ethnic Muddying. *See My Beautiful Laundrette*, *Sammie And Rosie Get Laid* and company. Take a Yorkshire-born director (David Attwood), add an Anglo-Indian screenwriter (Harwant Bains), then stir in two Asian-British juvenile leads, Naveen Andrews and Sarita Choudhuri as star-crossed Southall-dwellers aspiring to be Country singers. Result: a comical dish with a mixed, tangy, rebellious flavour that can be poured over the heads of racial purity theorists. Modestly made – neither the sound-recording nor the photography will win Oscars – but funny, charming and laudably interracial.

Robert Redford and Demi Moore in 'Indecent Proposal'

Paris theatre takes on a mirror image of today's world

Parisian theatregoers continue to benefit from the Jack Lang years, says ***Diane Hill****, with new productions from Peter Brook, Jerome Savary and Luc Bondy*

Bolstered by nearly a decade of ex-arts minister Jack Lang's lavish and liberal policies, Paris has in the last few years been making a bid to become Europe's theatre capital.

Compared with London, subsidy is a major element of its theatrical budget, either as direct grants to theatres and companies, indirectly through co-production with France's rich panolply of regional subsidised theatres and companies, or through the funding of an individual production, particularly if it concerns that rarity, a worthwhile new work. Even the Parisian commercial theatre received a direct FFr23m (£2.7m) from the state for 1993. But France's recent major government cast changes are likely to see a severe curtailment of such largesse, therefore placing in jeopardy the French capital's present high theatrical profile.

But for this season at least, Parisian theatregoers can continue to benefit from the legacy of *les années Lang*. Skimming the top off the *crème de la crème* of the hundred or so plays that have opened in and around the capital during the past ten weeks, Peter Brook's name is inevitably written large. After deftly retailoring the Debussy/Maeterlinck opera into *Impressions de Pelléas*, Brook now brilliantly mutates the eminent neurologist Oliver Sack's book, *The Man who thought his Wife was a Hat*, into a singular theatrical experience.

Premiered at the atmospheric old music hall, the Bouffes du Nord, where Brook founded his Centre International de Créations Théâtrales some 20 years ago, *L'Homme qui* is a series of Sack's medical case histories: genetic tics, involuntary reactions, waking dreams, false blindness, are acted out by four of Brook's most penetrating disciples, with amazing insight, sensitivity, simplicity and a disturbing verity.

MC93-Bobigny, an important suburban cultural centre, rounds off its present theatre season with a perceptive and immensely entertaining revival of Marcel Pagnol's *Les Marchands de Gloire* – which against a characteristically Pagnolian *provençal* backdrop strikes out against war and political corruption by amusingly bringing a dead hero back from the grave. This is to be followed by *Sans titre*, an untitled work by Federico Garcia Lorca, which accuses the theatre of acting out lies to distract from the surrounding reality.

Unbuttoned enjoyment has little place in this season's programme at the Colline, Paris' newest, most user-friendly and outspoken national theatre, which under the enlightened artistic direction of Jorge Lavelli admirably fulfils its mission as a stage for contemporary theatre. Currently, *Terres Mortes*, a French production of *Bauern Sterben* by German playwright Franz Xaver Kroetz, is spilling its 20th century entrails over the studio theatre. Now, it is a French production *Stalin* by the Chilean-born Gaston Salvatore, who writes in German and lives in Italy, that is spelling out its potent social message.

Demain une Fenêtre sur rue, in the Colline's main theatre, goes one step beyond the watching of war live on television, and imagines a family observing, through their window, a civil war bent on exterminating the poor. Not a spoof on CNN's recent exploits, the play was inspired by TV coverage of Biafra and written in 1968 by Jean-Claude Grumberg, one of France's most socially alert playwrights.

Parisian theatre is playing to the full its role as a mirror image of today's world. However, a gimmick-ridden, much-heralded French production of Edward Bond's *Jackets*, distorted beyond recognition the English playwright's already poorly defined reflection on children as victims of society. In complete contrast, *La Compagnie Des Hommes*, Bond's pin-hole view of the world of big business, was beautifully crafted into a dazzlingly glossy production when, at the start of the season, it was world premiered, also at the Théâtre de la Ville.

Jerome Savary continues to cock a snook at the establishment, now from the inside, as artistic director of the palatial Chaillot national theatre. His *penchant* is to take a hallowed classic and turn it into a circus act, reminiscent of those that he put together in the 1960s as founder of the Grand Magic Circus. The latest old master to be framed by Savary is Goldoni's *The Boors*. Translated into *Les Rustres* it becomes a hilarious romp. For classical purists it is a travesty, for the rest of us it is a laugh-a-minute British panto with a strong Franco-Italian accent.

Les Rustres, chased from the Chaillot in the full flight of success by Savary's new production of *The Taming of the Shrew*, is now at the Mogador, dark since the premature closure of a disastrous French production of *Kiss Me Kate*. This was the latest in a long line-up of international hit musicals to bite the dust once they touch French soil.

Sell-out success was virtually guaranteed for a revival of Jean Cocteau's *Les Monstres Sacrés* at the Bouffes Parisiens. Who could resist the chance to see Michèle Morgan and Jean Marais in harness together for the first time. Themselves *monstres sacrés* of the French cinema, no matter if the play, about two stage stars at their height, and written in 1937, is beginning to show its age – or that the octogenarian Marais is a shade too mature for the role.

Revivals of Alfred de Musset's *On ne badine pas avec l'amour* and *Il ne faut jurer de rien*, both directed by Jean-Pierre Vincent, are a disappointment. One has come to expect the unexpected from this remarkable director, whose talents made him an eminently suitable successor to Patrice Chéreau as artistic director of the Amandiers, a vast theatre complex in the university suburb of Nanterre. Despite the heady presence in *On ne badine pas*... of Emmanuelle Béart, who gained international acclaim in the film *Jean de Florette*, the Musset duo merely glows with professionalism, but never burst into flames of great theatre.

That elusive tingle factor is to be found in a new French adaptation of Ibsen's *John Gabriel Borkman*. Directed by Luc Bondy, a name increasingly known in operatic circles, and starring Michel Piccoli, it is set against a series of magnificent, megalomaniac décors by Erich Wonder. The production comes to the Odéon-Théâtre de L'Europe from the Vidy-Theatre, Lausanne.

A French revival of George Bernard Shaw's *Pygmalion* at the Arts Hebertot, is playing to full houses, thus taking the wind out of the stormy reviews it received. The scene stealer is Sophie Marceau as Eliza Doolittle, whose irreproachable performance dispels for ever her image as a cinema nymphet of little consequence.

For some time, the Comédie Française has been resting on its laurels as France's most historic and prestigious national theatre. A double bill of Molière's *Les Prècieuses Ridicules* and *L'Impromptu de Versailles*, the latest revival to enter its current repertoire, continues to display the complacent mediocrity that has attracted forceful criticism from the media. Audiences remain undauntingly loyal, although when the curtain comes down a lot of them are caught napping.

A green shoot at the start of the season was a French revamp of Goldoni's *La serva amorosa*. Not a particularly memorable production, it nonetheless has just won for the Comédie Française a Molière for this season's best play in the subsidised sector(the Molières are France's most important theatre awards.)

Temps contre Temps – Ronald Harwood's *Another Time* – at the Bruyère, was voted best play in the commercial sector. Its success rests squarely on the seemingly frail shoulders of Laurent Terzieff, who directs and plays the lead.

In recent years, the dearth of new French plays has seen an avalanche of foreign imports, particularly from among New York hits. All too often their adaptation into French has a castrating effect, which strips them to their quintessential raunchy appeal One to survive with its dramatic genitalia almost intact is David Mamet's *Speed the Plow*, as *Partenaires*, at the Michodiere.

INTERNATIONAL ARTS GUIDE

■ ATHENS

Concert Hall Tonight: Marek Janowski conducts Claus Helmut Drese's staging of Die Aegyptische Helena, with cast led by Anna Tomowa-Sintow. Sat and Sun: Camerata Orchestra plays symphonies by Mozart and Haydn. Mon: Sonia Theodoridou song recital. Tues: Alain Guingal conducts English Chamber Orchestra in works by David Matthews, Malcolm Arnold and Mozart, with clarinet soloist Thea King. May 25: Claudio Abbado conducts Berlin Philharmonic Orchestra (722 5511)

■ BARCELONA

Palau de la Musica Sat: Giacomo Aragall sings opera arias with Orchestra of La Fenice, Venice, conducted by John Fisher. Mon: Michael Gielen conducts South West German Radio Orchestra, with piano soloist David Lively. Tues: Kazimierz Kord conducts Warsaw State Philharmonic Orchestra in Stravinsky's Symphony of Psalms. Wed: Gilbert Bezzina conducts Coral Sant Jordi and Ensemble Baroque de Nice in Monteverdi (268 1000). Next production at Liceu: Jordi Savall conducts Gilbert Deflo's staging of Monteverdi's Orfeo, opening next Thurs (412 3532)

■ BERGAMO

The Festival Pianistico Internazionale di Brescia e Bergamo focuses this year on Brahms, Schubert, Tchaikovsky and Rakhmaninov. Vladimir Ashkenazy gives recitals tonight at Bergamo's Teatro Donizetti and tomorrow at Brescia's Teatro Grande. Andras Schiff gives a Schubert recital tomorrow at Bergamo. Hungarian National Philharmonic Orchestra under Adam Fischer gives concerts at Brescia on Mon and next Sat, and at Bergamo on Tues and next Fri, with soloists including Andrei Gavrilov, Silvia Marcovici and David Geringas. The festival runs till June 9 (Bergamo: tickets 249631/ information 240140. Brescia: tickets 59448/information 293022)

■ BOLOGNA

Teatro Communale Tonight and Sat: Riccardo Chailly conducts Rossini's Petite Messe solennelle, with Daniela Dessi and Giuseppe Sabbatini. Tomorrow, Sun afternoon, next Tues: Chailly conducts Rigoletto, with Leo Nucci in title role, Mariella Devia and Sumi Jo alternating as Gilda, and Pietro Ballo and Vincenzo La Scola as the Duke (529999)

■ FLORENCE

MAGGIO MUSICALE

Renata Scotto stars in Poulenc's *La voix humaine tomorrow*, Sun and next Wed at Teatro della Pergola. Semyon Bychkov and the Orchestre de Paris present two programmes at Teatro Communale on Mon and Tues, including music by Ravel, Lutoslawski, Bizet and Stravinsky. Next stage production: Diaghilev ballet programme, opening next Fri (277 9236)

■ GENOA

Teatro Carlo Felice Sun: first night of new production of Cavalleria Rusticana and La voix humaine, with alternating casts including Giovanna Casolla as Santuzza and Simone Alaimo as Alfio, and Sylvie Valayre and Renata Scotto in the Poulenc. Repeated May 19, 21, 23, 26, 28, 29, 30, June 1, 4 (589329)

■ LONDON

THEATRE

● The Showman (Der Theatermacher): Alan Bates stars in British premiere of hilarious black comedy by Austrian playwright Thomas Bernhard (1931-89). In previews, Press night on Mon *(Almeida 071-359 4404)*

● Arcadia: Tom Stoppard's new play directed by Trevor Nunn, with cast including Felicity Kendall. In repertory at Lyttelton with Alan Bleasdale's new comedy On the Ledge (National 071-928 2252)

● Juno and the Paycock: Gate Theatre Dublin's production of the Sean O'Casey play. Opens on Mon, till June 19 (Albery 071-867 1115)

● The Gift of the Gorgon: Judi Dench and Michael Pennington in Peter Shaffer's new play about *passionate love, professional* achievement and estrangement between a volatile writer and his wife (Wyndham's 071-867 1116)

● The Importance of Being Earnest: Maggie Smith as Lady Bracknell in Oscar Wilde's most popular comedy (Aldwych 071-836 6404)

OPERA/DANCE

Covent Garden Royal Ballet repertory consists of Swan Lake, Don Quixote and a triple bill (MacMillan, Bintley, Balanchine). Royal Opera has Otello tomorrow, next Tues and Fri with Vladimir Atlantov and Katia Ricciarelli, conducted by Edward Downes (071-240 1066)

Coliseum ENO repertory consists of David Alden's acclaimed new production of Ariodante conducted by Nicholas McGegan with Ann Murray and Amanda Roocroft, and a revival of Il barbiere di Siviglia with Della Jones. May 20: revival of Pountney production of Macbeth (071-836 3161)

Sadler's Wells Tues: Nederlands Dans Theater opens a week of performances with choreographies by Naharin, Kylian, Lightfoot and others (071-278 8916)

CONCERTS

South Bank Centre Tonight: Neville Marriner conducts ASMF in Ravel and Elgar, with piano soloist Cecile Ousset. Tomorrow and Sat: Klaus Tennstedt conducts Mahler's Seventh Symphony. Tues: English Symphony Orchestra plays Delius, *Bruch and Elgar, with cello soloist* Steven Isserlis. Wed: Yakov Kreizberg conducts LPO in Tchaikovsky (071-928 8800)

Barbican Tomorrow: James Galway is soloist with St Paul Chamber Orchestra. Sat: Markus Stenz conducts London Sinfonietta in Ligeti 70th birthday concert, with trumpet soloist Hakan Hardenberger. Sun afternoon: Tatiana Nikolaeva plays Bach and Shostakovich. Sun evening: Michael Tilson Thomas conducts LSO in Sibelius and Mahler. Mon: Gundula Janowitz *sings Strauss and Mozart.* Wed: Mariss Jansons conducts St Petersburg Philharmonic Orchestra (071-638 8891)

■ MADRID

Auditorio Nacional de Musica Tomorrow, Sat, Sun: Zdenek Bilek conducts Spanish National Orchestra in works by Martinu and Dvorak. Tues: Joaquin Parra piano recital (337 0100). Next production at Teatro La Zarzuela: La forza del destino, opening May 24 (429 8225)

■ MILAN

Teatro alla Scala Tomorrow: James Conlon conducts first night of Luca Ronconi's new production of Weber's Oberon, designed by Margherita Palli and Vera Marzot, with Robert Gambill, Elizabeth Connell and Ben Heppner (also May 15, 16, 19, 20, 23, 25, 27). Tues: Fedora. Next Wed at Teatro Lirico: first night of double bill pairing Nino Rota's ballet La Strada with modern Italian choreographies (7200 3744)

■ PRAGUE

PRAGUE SPRING FESTIVAL

The performance of Ma Vlast with which Libor Pesek and Royal Liverpool Philharmonic Orchestra opened the festival last night is repeated this evening at Smetana Hall. Charles Mackerras conducts Don Giovanni tonight and Sat at Estates Theatre. Carl Davis conducts Paul McCartney's Liverpool Oratorio tomorrow at St Vitus Cathedral. Mark Kaplan is violin soloist with German Chamber Orchestra at Dvorak Hall on Sat. The programme on Mon includes a piano recital by Lazar Berman and a Prague Symphony Orchestra concert conducted by Martin Turnovsky. Tues has a 17th century song recital by Emma Kirkby and Anthony Rooley, a programme of Haydn and Beethoven songs with Wolfgang Holzmair and a Czech Radio Symphony Orchestra concert. Next Wed: piano recital by Leif Ove Andsnes. The festival runs till June 1 (530293)

■ *ROME*

Teatro Olimpico Tonight: Pierre Boulez conducts Ensemble InterContemporain in works by Donatoni, Petrassi, Berio and Stravinsky, with vocal soloists including Suzanne Mentzer and *David Wilson-Johnson* (323 4890)

■ TURIN

Teatro Regio Tonight: first night of Giselle, guest production by Ballet of Deutsche Oper, Berlin, staged by Peter Schaufuss. Daily till next Sun except Mon, Thurs and Fri. Mon: Daniela Dessi and Giuseppe Sabbatini sing opera arias (8815 241)

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY

Super Channel: European Business Today 0730; 2230

Monday Super Channel: West of Moscow 1230.

Super Channel: *Financial* Times Reports 0630

Wednesday Super Channel: Financial Times Reports 2130

Thursday Sky News: Financial Times Reports 2030; 0130

Friday Super Channel: *European Business Today* 0730; 2230

Sky News: Financial Times Reports 0530

Saturday Super Channel: Financial Times Reports 0930

Sky News: West of Moscow 1130; 2230

Sunday Super Channel: West of Moscow 1830

Super Channel: Financial Times Reports 1900

Sky News: West of Moscow 0230; 0530

Sky News: Financial Times Reports 1330; 2030

Arts Guide

Monday: Berlin, New York and Paris.

Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.

Wednesday: France, Germany, Scandanavia.

Thursday: Italy, Spain, Athens, London, Prague.

Friday: Exhibitions Guide.

Architects of their own downfall

BOOK REVIEW

TOWERS OF DEBT
By Peter Foster
Hodder & Stoughton £19.99, 312 pages

In the 1980s, the international business world put Paul Reichmann on a higher pedestal than such icons of the era as Donald Trump and Michael Milken. Here was a man who had not only amassed billions of dollars, but had done it the old-fashioned way.

Courtly in manner and unassuming in lifestyle, Mr Reichmann masterminded the growth of Olympia & York into the world's biggest property developer. Bankers and politicians lionised him and tenants flocked to O&Y's well-managed buildings. Business negotiations with the company were invariably taxing, but that only served to compound the impression that any Reichmann deal must be a good one.

The Reichmann reputation has taken a battering, however, since O&Y succumbed to its US$11bn (£7bn) debt a year ago. During nine arduous months of debt-restructuring talks, creditors discovered one reason after another to change their minds about Paul Reichmann and his two brothers and business partners, Albert and Ralph. They were furious last April when they found out that Mr Reichmann had briefed the media on his restructuring proposals the weekend before he presented them to the banks. What is more, the data given to the banks were out of date, and failed to disclose just how desperate O&Y's plight had become.

The creditors became angrier as the full story emerged of how the vast Reichmann family business had been managed. O&Y had always assured its lenders that each of its buildings was a separate financial entity. But the creditors discovered, too late, that as the property downturn deepened, the Reichmanns had funnelled rents from profitable buildings in New York to their tottering empire in the UK and Canada.

"The seeds of destruction lay in Paul Reichmann's unquenchable ambition," writes Peter Foster in his book on the rise and fall of Olympia & York. "[His] fatal flaws were excessive belief in his own powers, corporate acquisitiveness and a penchant for larger and larger gambles."

Those attributes were evident in Mr Reichmann's comment in 1988 on Canary Wharf, the London Docklands project which was meant to be O&Y's crowning glory but ended up dragging it down. "This is not a risky project," Mr Reichmann is quoted as saying. "Doing one building there would be risky. Doing a dozen is not." Such bravado, delivered in the Reichmanns' convincingly low-key style, impressed lenders, journalists and politicians in the heady years when real estate values were soaring.

The Reichmann brothers' success story began with the parcel of New York office buildings which they bought in the depths of the city's fiscal crisis in 1977, in the words of one developer, just "20 minutes before the real estate market turned around". The family's reputation was cemented by a bold decision to begin construction of the imposing World Financial Centre in lower Manhattan as the property boom of the 1980s was lifting off.

But these achievements were only one side of the Reichmann story. Towers of Debt tracks the family's mistakes back to 1981 when O&Y moved away from the business it knew best to take control of Abitibi-Price, then the world's biggest newsprint producer. Four years later the family bought a 60 per cent stake in Gulf Oil's Canadian subsidiary for C$2.8bn, in the biggest corporate takeover in Canadian history.

The Reichmanns diversified several more times. Though hostile takeovers were not their style, O&Y precipitated a messy struggle in 1986 for control of Hiram Walker, the drinks and resources group.

Mr Paul Reichmann again showed poor judgment by backing the mercurial Canadian entrepreneur Mr Robert Campeau during Mr Campeau's over-ambitious takeovers of two of the US's biggest department store groups. Mr Reichmann came to regret his backing of Mr Campeau even more than he did his involvement in the Canary Wharf project.

Foster, a Canadian business writer, covers all the main episodes of the O&Y story. But his book lacks the immediacy and fresh detail which distinguish a riveting corporate history from a passable one. While criticising journalists for being blinded by the Reichmann aura, Foster relies heavily on newspaper reports to tell his story. There is scant evidence of original research, such as first-hand interviews, with the notable exception of his accounts of the Gulf Canada and Hiram Walker takeovers (which are reproduced from one of his earlier books).

In his preface Foster takes pride in having had two long interviews with Mr Paul Reichmann in 1990. But his access to O&Y insiders seems to have been more limited in the crucial two years that followed.

In particular, Towers of Debt gives only a cursory – and mostly second or third-hand – account of O&Y's relations with the banks, arguably the most important players in the saga after the Reichmanns themselves. Foster notes in passing that two banks, Canadian Imperial Bank of Commerce (CIBC) and Bank of Montreal, received more data on O&Y than other lenders. A little more digging might have unearthed the annual ritual in which O&Y invited about 20 bankers to its offices to peek at an abridged version of its financial statements, which they were not allowed to take away.

The book also fails to elucidate the full story of the tensions which erupted between O&Y and some of its biggest lenders (and among the lenders themselves) after CIBC refused to put up more money for Canary Wharf in early 1991.

While Towers of Debt does a workmanlike job of telling the Reichmann story, readers with the time or inclination to pick up only one book on O&Y may wish to wait for one of the others now in the pipeline.

Bernard Simon

ECONOMIC VIEWPOINT

Collective panic will not help

By Samuel Brittan

The great British historian, Thomas Macaulay, knew "of no spectacle so ridiculous as the British public in one of its periodical fits of morality". There is, however, one almost as ridiculous: the Tories in one of their fits of collective panic.

The near hysteria with which many MPs, ministers and, above all, the Tory media, have reacted to the shock government by-election and local election defeats in mid-parliament, were to be predicted. But the phenomenon is all too familiar. Unfortunately, my memory goes back to the losses of Torrington and Orpington to the Liberals under Harold Macmillan. Such results tell us nothing about the result of the next election. Forecasting the next election is as unreliable an activity as forecasting the timing of economic "green shoots".

How far do economic factors explain what has happened? Not nearly as much as supposed. Various indicators have been tried to explain government popularity. All have succumbed to Goodhart's Law; as soon as a measure is used as a policy target, it lets us down.

The least unpromising is real personal disposable income because it is comprehensive, taking in benefits as well as pay, and allows for taxes and inflation. It has proved remarkably steady in the medium term. The average annual increase has fluctuated at about 2½ to 3 per cent – from which between a ¼ and ½ per cent should be deducted to get disposable income per capita.

Straight-laced economists have often regarded these increases as too high, because they have not left enough over for investment and exports. Nevertheless, when real personal income growth has been much below these rates it has tended to bounce back, while much higher increases have proved unsustainable.

The achievement of relatively high rates of growth of this variable has never been a sufficient condition of government re-election. The first Wilson government was defeated in 1970 in spite of an above-trend increase in its last full year of office. The Heath government was defeated in 1974 in spite of an extraordinarily high increase of 6.4 per cent in its own last year, and an average of 5 per cent over its whole term. Lord Callaghan was defeated in 1979 in spite of an even more extraordinary growth rate of 7.7 per cent in real incomes in 1978.

One is tempted to say that a reasonably good growth of real income is not a sufficient, but a necessary, condition of re-election. Even this comes up against the fact that John Major was re-elected last year in spite of a ½ per cent fall in disposable incomes in the recession year of 1991.

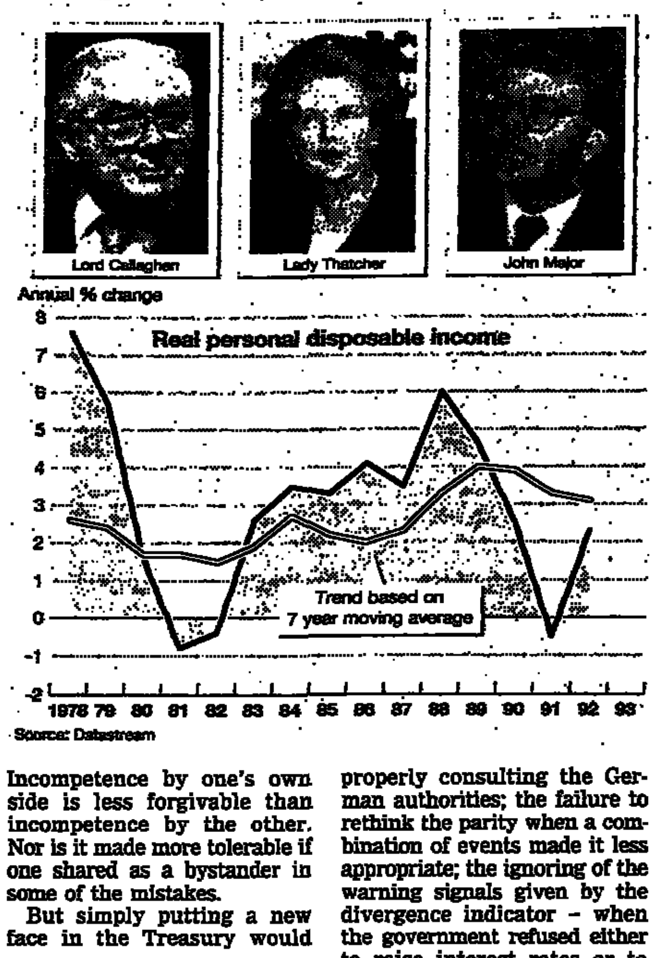
A mechanical analysis might say that the present prime minister benefited from the achievement of the normal 2¼ per cent a year average real income growth over the 1987-92 parliament. But it is more realistic to suggest that he benefited both from distrust of Labour and the widespread feeling that there had *already* been a change of government when he took over from Lady Thatcher. At any rate a recovery to 2¼ per cent in disposable income growth in 1992 – well ahead of general economic recovery – did not prevent the political losses of a week ago.

There is one negative feature of which one can be confident: the futility of cliché populist reactions such as a cabinet reshuffle or replacing the chancellor. The problems remain the same; the officials analysing them remain the same. There is just Whitehall gossip about the new occupant, whether he reads his briefs, rewrites speeches and so on.

The odds are that a new chancellor – after an initial period of tough-sounding reassurance of the financial markets – would be more tempted than Norman Lamont to make gestures in the direction of cheap money and plenty of it, and avoiding the fiscal changes required to eliminate the structural budget deficit. The present chancellor has everything to gain and nothing to lose from sticking to sound money policies. The time for a symbolic change at No 11 has gone.

None of this means that we should pass over in silence the handling of Britain's membership of, and departure from, the exchange rate mechanism – which remains abysmal, whether one was a supporter or an opponent of membership.

Rising income: no sure election recipe



Source: Datastream

Incompetence by one's own side is less forgivable than incompetence by the other. Nor is it made more tolerable if one shared as a bystander in some of the mistakes.

But simply putting a new face in the Treasury would achieve less than nothing. What is needed is a public inquiry into the full chain of events, covering prime minister as well as chancellor, officials as well as ministers, Bank of England as well as Treasury.

Putting a new face in the Treasury would achieve nothing. Better a full public inquiry

Any inquiry would have to go back at least to the choice of entry parity in 1990 without properly consulting the German authorities; the failure to rethink the parity when a combination of events made it less appropriate; the ignoring of the warning signals given by the divergence indicator – when the government refused either to raise interest rates or to realign; the conduct of the notorious Bath finance ministers' meeting; the failure of communication with the Bundesbank in the days before Black Wednesday last September; and the official surprise at the extent of the run on sterling in a foreign exchange market with a daily turnover running into hundreds of billions.

A model might be the Franks Committee investigation of the events leading up to the seizure of the Falklands in 1982. Although this had anodyne conclusions, the narrative was revealing and accepted by both opponents and supporters of the Falklands war.

Meanwhile, the biggest obstacle to the improvement of UK economic policy is the failure of free-market and sound money Conservatives to understand the arguments for institutional reform and for more use of rules rather than government discretion. This was a cause central to Friedrich Hayek, who died just over a year ago and whom such leaders claim to revere.

(The proceedings of a conference held to commemorate the first anniversary of Hayek's death will be published by Macmillan in spring 1994. S F Frowen [ed] Hayek: The Economist and Social Philosopher; A Critical Retrospective.)

At a recent lunch I heard the go-go New Zealand finance minister Ruth Richardson take legitimate pride in a 1 per cent inflation rate – the lowest in the OECD, and which was at last being accompanied by healthy growth. She did not fail to pay tribute to one of her Labour predecessors, Sir Roger Douglas, for establishing the independent Reserve Bank, which had made this achievement possible.

A British cabinet minister was present, one of the few with untarnished reputation. Instead of inquiring further how an independent central bank can fit into a British-type parliamentary democracy, he just asked why it was necessary if the government displayed enough will-power.

How can one begin on the fallacies in this simple question? Who knows where this minister will be in a year or two, and whether his will is going to prevail or not? Heroic acts of will-power are an unreliable, and even undesirable, basis for constitutional democracy. All the great exponents of limited government, from John Locke to the founders of the US Constitution and onwards, have called for institutions which will do least damage when manned by people of common-or-garden ability and morality.

The point about an independent central bank is not that its governors are better or cleverer or more heroic than parliamentarians, but that, given the right constitution or contract, they have every incentive to achieve stable prices. Parliamentarians rightly have a multiplicity of objectives and time horizons. The quality of Conservative thinking was better in the 1970s – when reacting to Labour in office – than today, when the leaders squabble about which of them are to be the masters.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Safer on the inside

From Mr Nigel Johnson-Hill.

Sir, My late father campaigned for insider trading to be made compulsory, believing it to be the only way an ignorant investor could be protected from his own stupidity.

Nigel Johnson-Hill,
Park Farm,
Milland,
Liphook,
Hampshire GU30 7JT

Nadir and a question of recognition

From Mehmet Arif Demirer.

Sir, Your editorial comment: "... the government of northern Cyprus should not think that welcoming him [Asil Nadir] with open arms is a cost-free decision. It is precisely such behaviour which will prevent it receiving the recognition it craves" ("Jumping bail", May 6), raises two questions. First, the Turkish Republic of Northern Cyprus (TRNC) was proclaimed nine years ago. Mr Nadir was a very important man in the UK then. Why did the UK not recognise the TRNC, say, in 1985? Second, how many times did the TRNC receive fugitives from British justice with open arms to justify the British diplomatic non-recognition?

One final comment. Your usage of the word "crave" instead of "expect" or "demand" implies a touch of unnecessary ugliness not becoming to the FT.

Mehmet Arif Demirer,
Dükres Sokak 8/3,
D6680 Ankara, Turkey

Champions aim to unify export efforts

From Richard Needham MP.

Sir, Your leader of April 26 ("Mr Heseltine's magic lantern") commented that "government selection of 'national champions', even in the limited context of bids for export contracts, is a tricky game". In fact, we are not going back to the bad old days of government picking winners. What we are doing is working with industry so that British companies are unified against foreign competition in export markets rather than squabbling among themselves. These efforts will be headed in each important sector by a senior figure. That is what I mean by a national champion.

There is enormous strength in British industry which we can exploit effectively overseas if we all work together. What we are about is *backing* winners.

Richard Needham,
minister for trade,
Department of Trade and Industry,
Ashdown House,
123 Victoria Street,
London SW1E 6RB

Mission statements that are too often short on reality

From Dr Steve Tibble.

Sir, Your article "Men with a mission" (Management, May 10) was a very timely and appropriate comment on the state of the mission statement in British corporate life.

There are three fundamental areas in which British companies fail to give mission statements the value and credibility they need:

■ They are all too often written in "management speak"; this may suit individuals at board level, but the further down the line one goes, the less relevant it is. It also has the effect, in most cases, of making a statement which is bland to the point of anonymity.

The acid test must be that the company is still capable of being readily identified even if one crossed its name off the mission statement: surprisingly few of them pass that test at the moment.

■ They are often sent out in a single form to all staff, and all staff are expected to relate to them in the same way (which, of course, is almost entirely impossible);

■ They are not set out in a way which means that employees can relate them to their everyday tasks: and if they fail that test, it means that employees will have great difficulty in relating to the mission statement at all.

British management seems to have accepted the idea of the mission statement without necessarily being able to turn it into a reality; a mission statement is a beginning and not an end.

Dr Steve Tibble,
senior consultant,
Richard Pollen & Company,
Dunsfold Ryse,
Chiddingfold,
Surrey GU8 4YA

Policies to lure capital back home

From Mr Wolfram Schrettl.

Sir, Martin Wolf, in his most useful article, "How to encourage flight capital to go back home" (May 4), does not mention two important aspects of the issue.

First, most advocates of "shock therapy" (for Russia as well as for other economies in transition) do not demand full legalisation of capital flows – that is, capital account convertibility. Rather, they recommend either that free two-way capital flows be completely excluded from liberalisation or that only capital inflows, not outflows, be "allowed", or that capital account liberalisation be postponed until the very end of the reform sequence.

These restrictions rather reduce capital inflows and, at the same time, contribute to the "crippling outflow", as Mr Wolf rightly notes. However, it should be acknowledged that not only "gradualists", but "shock therapists" as well, are to blame for this.

Moreover, part of the capital flowing out of Russia is likely to be of a criminal origin (corruption). Therefore, even with the removal of standard reasons for capital flight (such as interest rate spreads, confiscatory taxation, etc), at least some of the flight is unlikely ever to return home,contrary to what Mr Wolf seems to assume. In order to generate a full reversal of the outflows, policies need to over-compensate for the generically irreversible part of capital flight.

Wolfram Schrettl,
10105 Grayhorse Court,
Potomac, MD 20854, US

Lloyd's: relief for Names only way forward to a bright future

From Mr Iain Mitchell.

Sir, Anyone concerned with the future of Lloyd's and the contribution it can make to the financial well-being of the country, must welcome the new business plan for its realistic appraisal of needs for the future based on far greater frankness about the mistakes of the past ("The Lloyd's business plan", April 30).

The tacit or explicit admission of those mistakes, however, highlights the need to address the problem of those who are already victims of them. While losses still mount, precise figures are impossible, but it appears that the 500 or so Lime Street Names now face losses in excess of £1.196bn for the years 1988-91. This is effectively 1.8 per cent of the membership carrying nearly 24 per cent of the losses.

It is perhaps inevitable that, while the battle for survival rages, attention is more closely concentrated on the conduct of the fight than on care for the desperately wounded; nevertheless, it would be immoral for future prosperity to be built on lessons learned from the mistakes of the past without the consequences of those mistakes also being put right.

On practical, as well as moral, grounds, the issue cannot be ducked either; it must become increasingly clear from each further revelation that the claims of much of the litigation are well founded and, anyway, most of the Lime Street losses (averaging £2.3m per Name) could not be met even if the Names were to abandon all claims. For every reason, therefore, Lloyd's cannot expect to march forward to a bright future over the bodies of those cut down without giving them proper relief.

Iain Mitchell,
secretary,
Lime Street Action Group,
4 Courtyard House,
27a Farm Street, London W1

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Thursday May 13 1993

G7's Russian roulette

A NEW US administration, Russian President Boris Yeltsin's referendum victory, and the messy disintegration of Yugoslavia, appear to have persuaded the G7 that last year's charade cannot be repeated: Russia's reformers need aid and they need it soon. But no western government can be under any illusion. The game is worth playing, but the risks are high.

The G7 feels brave enough at last to leap over the International Monetary Fund's orthodoxy and recognise that western aid is a precondition for Russian reform, not a reward. To demand tight budget discipline and low inflation before aid is released, as the IMF did last year, is to risk mass bankruptcy and social unrest. Such a strategy was more likely to impede, rather than speed, the process of privatisation and democratisation in Russia. In the event, it was never tried.

Handing over billions of dollars in budget support to a Russian government which, after 18 months of reform, still allows an inflation rate of 20 per cent a month, or more, is a gamble. Handing aid to a government that has still not swung decisively behind stabilisation, over two weeks after a referendum endorsing the president and his policies, is bound to look foolhardy.

Yet if there is even a chance of promoting reform and enabling the government to establish financial discipline, the west must grasp it. For it cannot be denied that Russia is special by virtue of its strategic importance. Moreover, the risks of a collapse of reform are great, while the obstacles to economic change – the distorted state of industry and the lack of a technically sophisticated bureaucracy – will take time to remove.

It is regrettable that the G7 has chosen to jeopardise the reputations of both the IMF and the World Bank in the process. Both are now bound to lend on terms much looser than they would choose, primarily because G7 governments prefer to hide their expenditures behind an institutional smokescreen. A second Marshall Fund – run, but not funded by the IMF and the Bank – would have been preferable.

The G7 owes it to the international institutions, as well as to western taxpayers, to ensure that the minimum standards it sets will be rigidly enforced. Western budget support should be provided on a monthly basis. IMF officials must be stationed within the central bank to ensure that aid is halted if ceilings on credit creation are exceeded. The G7 should also encourage systemic change by biasing aid towards privatised companies. It should ensure that general budget subsidies are cut, while specific subsidies to state enterprises are time-limited and tied to restructuring.

Last year's response to Russian pleas for help was torpid. But the G7's new activity is a gamble. The onus now shifts to the Russian government to show that it is, and remains, serious about reform.

Local finance

"WE MUST build a new accountability fit for the 21st century – a new accountability that goes directly from those who run public services to those who use them." Admirable sentiments, expressed with characteristic clarity by Mr John Major in February. However, accountability for the provision of local services has become less direct in recent years, according to a report published today by the Audit Commission.

The commission says that the scope for councils to vary spending on services in line with local preferences has been shrinking. Standard Spending Assessments, used by the government to allocate grants to local authorities, prescribe what councils should spend to provide a standard level of service. But they are also used to control council spending. Local authorities which spend too much over their SSA are forced to cut their budgets.

Using such assessments to allocate government grants inevitably leads to arguments over the needs of particular areas. It also creates anomalies, rating Cambridge as more deprived than Hartlepool, for example. Worse, using them to cap council expenditure undermines the accountability of local authorities to their electorates. Councils that provide poor quality services can blame the government for setting SSAs which are too low for their area's needs and for capping their spending.

The view that these assessments are objective is strengthened by ministers who encourage councils to spend up to SSA. Birmingham City Council, for example, has been pilloried for spending less than SSA on education. Increasingly it looks as if central government decides what councils spend, through the SSAs, rather than the locally elected council. The result is a confusion of accountability: neither central nor local government accepts responsibility for decisions on particular services.

At the heart of the problem is the fall in the proportion of local government income which is raised by local taxes. In 1989-90, more than half of local government income came from local taxes; this year they account for about 20 per cent. Councils which depend for 80 per cent of their income on government grants can only be weakly accountable to the local electorate. And as long as Whitehall provides the bulk of local authority income, ministers will want to interfere in how town halls spend it.

Restoring local accountability requires an increase in the discretion which local government can exercise. That means providing local authorities with a stable tax base which can finance a much higher proportion of their spending. The simplest step towards this would be to return the business rate to local authority control, with safeguards to limit increases which might damage competitiveness. Efficiency and effectiveness will be easier to achieve if local taxpayers know that their councils exercise real power over local services.

High-cost TV

GOVERNMENTS tend to get misty-eyed when they contemplate high-technology projects. But those with misty eyes rarely have clear vision. Such has been the case with the European Community's programme to push high-definition television. Earlier this year, it looked as though the programme was set for a merciful death. But, following a gasping attempt this week by EC ministers to resuscitate the project, it may linger on for a little longer.

Europe's HDTV failure stems from the government-backed "techno-imperialism" of companies such as Philips and Thomson. The idea was that a home-grown standard would help Europe's industry outflank Japan's.

The snag was that the plan did not take account of the market. Broadcasters were reluctant to make programmes in the new standard and it was doubtful whether consumers would be prepared to buy expensive new TV sets. The irony is that Europe has been overtaken not by Japan but by the US, where development has been more market-driven.

The EC would do well to bury its project. Unfortunately, the Commission and most countries seem determined to press ahead with a slimmed down scheme to subsidise production of TV programmes. Even Britain, which has criticised the strategy, seems willing to go along.

It is understandable that Britain is thinking of compromise, since other countries have moved substantially in its direction. Proposed EC funding for the plan has been cut from Ecu850m to Ecu285m and may fall further.

If the HDTV initiative were an isolated case, there would be something to be said for waiving it through in the interests of being *communautaire*. But it is not. Similar white elephants in the past include Jessi, which aimed to build a strong European semiconductor industry, and others could be in the pipeline. Only last month the Commission proposed spending Ecu13.1bn on research and development by 1998.

Subsidised R&D is not the answer to Europe's weaknesses in high technology. Philips is ailing despite an excellent record in R&D. The problems are that European companies have often been bad at turning research into money-spinners, and other sectors of the economy have been slow to absorb the benefits of technology.

It is not simply that such subsidies are a waste of taxpayers' money. Aid is also counter-productive because it is almost invariably channelled through big companies which have close links with government officials. This delays necessary adjustments in what are often industrial dinosaurs, while nimbler companies – which may have a better chance of profitable innovation – are unfairly discriminated against. Europe's technology policy should concentrate not on pushing technologies against what the market demands but on facilitating the dissemination of technology in vigorously competitive markets.

The music industry is resigned to an inquiry into the cost of UK compact discs, writes **Michael Skapinker**

They're picking up bad vibrations

During the recent House of Commons inquiry into the price of compact discs, Mr Gerald Kaufman, national heritage committee chairman, complained that one interrupting witness appeared to be performing a duet with him.

Both the UK music industry and its critics have stuck doggedly to their tunes during the debate on CD prices, without being distracted by the singing of the other party. Many listeners, however, have come away with little more than a headache – and no clear answer to the question: are UK music companies cheating consumers?

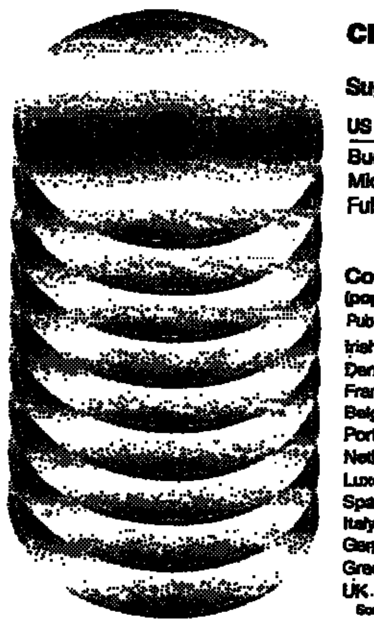
Yesterday, the heritage committee published its report, condemning CD producers for charging too much and criticising retailers for failing to use their size to insist on price reductions. Sir Bryan Carsberg, director-general of fair trading, is expected within the next few days to announce whether he intends to recommend a Monopolies and Mergers Commission investigation into the music industry. Music companies are resigned to an MMC inquiry.

Both the committee and Sir Bryan stressed the importance of examining restrictions on parallel imports. The restrictions, contained in the Copyright, Designs and Patents Act of 1998, allow the holder of a copyright to prevent the import of his or her work. This means that while the company which holds a copyright can import CDs, it can prevent independent companies from doing so.

To many in the public gallery, the committee inquiry was an unimpressive affair. One observer, Mr John Preston, chairman of BMG Records (UK), who describes himself as a socialist, says that neither Labour nor Conservative committee members seemed to understand how a free market worked. They had difficulty accepting industry executives' assertions that production cost should not be the only determinant of CD prices and that companies could legitimately consider what consumers were prepared to pay.

For their part, several industry witnesses retreated into resentment when confronted with the all-party onslaught from Labour's Mr Kaufman and Conservative colleagues such as Mr Toby Jessel.

Music industry executives say they cannot understand why they have been the focus of such intense criticism, when the publishing industry is permitted to fix prices openly through the Net Book Agreement. They also point out that, unlike CDs, books are exempted from value-added tax. The publishing industry has argued that VAT on books would be a tax on learning. "Why is Barbara Cartland more educational than Mozart?" one music industry official asks.



CDs: in a spin over prices

Suggested retail price categories (£1=$1.57)

US	$	£ equivalent	UK	£
Budget	9.95	6.34	Budget	5.78
Mid line	11.96	7.62	Mid price	8.08
Full line	13.99	8.91	Full price	11.74

Source: National Heritage Committee

Comparative European prices (popular music)
Published December 1992

Irish Republic	£17.13
Denmark	£16.73
France	£15.41
Belgium	£15.10
Portugal	£15.06
Netherlands	£14.95
Luxembourg	£14.69
Spain	£14.50
Italy	£13.40
Germany	£13.14
Greece	£12.86
UK	£12.78

Source: British Phonographic Industry/Employment Conditions Abroad

Mr Preston adds that, unlike the far less successful British film industry, music companies have never asked for government money or special tax treatment.

For all the discomfort the attacks have caused the industry, none of the critics has, until now, been able to point to anti-competitive practices by the music companies. An earlier OFT inquiry by Sir Gordon Borrie, Sir Bryan's predecessor, concluded last year that were no grounds for an MMC inquiry because there was no evidence of any collusion between companies.

Sir Gordon said there appeared no good reason why CDs should be more expensive than cassettes when production costs were the same – a point stressed in yesterday's heritage committee report. But Sir Gordon added: "Producers and retailers have taken advantage of the willingness of consumers to pay a higher price for the perceived higher quality of a CD. In other words, the prices of CDs have settled around a level which, on the whole, the market appears willing to bear."

Sir Bryan told the committee last month, however, that lower CD prices in the US had persuaded him that the issue needed to be looked at again. Most worrying for the industry, he said he would look at a specific trading practice – restrictions on parallel imports.

The heritage committee conceded that relaxing import restrictions could put the UK at a disadvantage to countries like the US which have tight controls. The UK would be open to US imports while the American market would remain closed. The committee recommended, however, that the Department of Trade and Industry re-examine current copyright legislation. A change to the copyright laws, permitting a flood of cheap imports, is what UK music companies fear most.

Mr Nic Garnett, director-general of the International Federation of the Phonographic Industry, which represents music companies worldwide, says unrestricted cheap imports could damage the UK industry by depriving companies of the profits needed to invest in new, often risky, talent.

Mr Maurice Oberstein, chairman of the British Phonographic Industry, says the pricing debate has focused on the effect of cheaper CDs on large companies such as PolyGram, Thorn EMI, Sony and WEA/Warner. The BPI has 150 members, however, many of them small, and lower profit margins could drive them out of business, he says. Leading companies such as Virgin Music started out as independent producers and it is the smaller UK labels which have traditionally found new talent. If profit margins become so small that independent companies can no longer operate, new acts will find it even harder to gain recognition, he argues.

Mr Garnett adds that a more liberal copyright regime could result in imports of pirate CDs. He agrees that legislation could be drafted to allow only lawfully produced CDs to be imported, but says this will prove difficult in practice. "What if the CDs are made in the Ukraine where there are no copyright laws at all?" he asks.

The Consumers' Association pointed out to the committee that imports could be permitted from countries which have signed intellectual property conventions and which enforce them properly.

Mr Garnett argues that this would not necessarily result in lower prices. Japan, which has no copyright controls, has some of the highest CD prices in the world, while the US, with strict restrictions against parallel imports, is regarded as having the lowest.

In any event, he says, EC countries such as Denmark and Ireland have no bar to parallel imports, and the situation in France, Portugal and the Netherlands is unclear. There is no legal bar to UK companies importing CDs from these countries without the permission of the copyright holders.

Nevertheless, the British Phonographic Institute estimates, based on figures provided by Gallup, that only 0.3 per cent of UK CDs are currently imported by independent distributors – the companies that might be expected to undercut the prices of the biggest groups.

But if parallel imports do not take place at the moment, even through they are legally possible, and there is no evidence that they would result in lower consumer prices, why is the industry so strongly opposed to them?

Mr Garnett says a possible reason prices do not fall when restrictions are lifted is that independent importers fail to pass on the benefit of their lower costs and simply enjoy higher profit margins. This would damage the mainstream industry without resulting in a significant benefit to the consumer. He says he does not know why parallel imports do not occur at present – possibly because even with cheap imports, selling CDs is not sufficiently profitable to make it attractive to independent distributors. The problem with changes in copyright law is that the outcome is difficult to predict, Mr Garnett says.

An MMC inquiry would provide an opportunity to examine copyright rules in greater detail. It appears, however, that critics of the music companies would be unwise to regard an increase in parallel imports as a panacea.

When pressed privately about why UK prices are higher than in the US, music industry executives say that British consumers are prepared to pay more than their American counterparts. The national heritage committee report argues that UK companies could substantially increase the size of the CD market if they charged less; in 1991, each American owner of a CD player bought 15 discs, compared with only 7.8 in the UK.

But the UK industry is not doing badly. Delivery of CDs to UK retailers grew 12.2 per cent last year to 70.5m units, despite the recession and the availability of cheaper cassettes. In the first quarter of 1993, CD sales rose 32.4 per cent. Reams of paper will no doubt continue to pour from the offices of MPs and consumer groups. For all the irritation they cause, however, CD companies pay more attention to what comes out of music lovers' wallets.

The ABCs of a sensible testing policy

PERSONAL VIEW

Britain's education secretary, John Patten, has decided to simplify national curriculum testing next year. Has he paved the way to solving the immediate dispute? Will the main classroom teacher unions suspend their boycott, and will they lose the sympathy or support of governors, heads and parents if they do not?

Commentators are right to suggest that Mr Patten would have been wise to have gone the last hundred yards and suspend this year's tests, or find a political euphemism for doing so by declaring them consultative. Realists may accept, however, that his room for political manoeuvre was very limited. In practice it is very unlikely this year's tests will proceed as Mr Patten would like. So he must decide whether to go on the attack over a short-term problem and risk extending it, or accept the inevitable as philosophically as he can.

A long-term solution must be found. The government is right to emphasise one over-riding imperative – to raise standards of UK education and training. Failure to do so will lead to harsh economic and social consequences.

Mr Patten acted sensibly in commissioning Sir Ron Dearing, the recently appointed chairman of the new School Curriculum and Assessment Authority, to conduct an urgent review of the national curriculum and testing arrangements. Some will argue that Mr Patten has now pre-empted the outcome by his Commons statement this week.

Many more will appreciate that he has increased the likelihood of Sir Ron's success by early public acceptance that the pointless complexity of national testing can be simplified only if it is restricted to the core subjects. It was always a nonsense that seven-year-olds should be assessed in English, maths, science, technology, history, geography, music, art and physical education.

Teachers and parents should welcome the commitment that tests for 11-year-olds in the core subjects will be mandatory only after a full year's trial. Postponing history and geography tests for 14-year-olds until Sir Ron has completed his review makes good sense too.

Everything turns on that review, and Sir Ron has made a good start. He has entered into immediate talks with teachers and the organisations which represent them. They, together with independent school bodies, have submitted their views on a framework for progress.

Everything turns on Sir Ron Dearing's review of the national curriculum, and he has made a good start

Sir Ron's decision to listen to teachers gets his review off on the right foot, but does not guarantee success. It does not reconcile one absurdity – that there is not merely one body that advises Mr Patten but three, all acting independently of one another.

The School Teachers' Review Body recommends on pay and conditions. Ofsted is a field force of inspectors who see the impact of government policies and police school performance. It is vital that Sir Ron seeks the assessments of the review body and Ofsted on the human resource, management and quality implications of his review.

It must explore three crucial issues. First, how much teaching time should be dedicated to the national curriculum irrespective of the elements which are tested.

Second, what should testing seek to achieve? For children and parents the principal purpose is obvious: to provide confident information about how children are performing in comparison with their age group and in terms of their individual potential. It does not follow that testing every child is necessary or will even indicate whether the national investment in education is paying off.

Nor does it follow that such test results, published in league table form, could in reality inform parental choice among schools. The government's fixation with league tables ignores the lack of consumer interest in them, as opinion polls have shown. Perhaps even more important, it disregards the essential imperfection of the school market where, in reality, the consumer has restricted choice. Parents may be far more interested in how individual schools are competing against their own past performance.

Third, the review needs to consider the fundamental tension in government philosophy between central regulation and local manager autonomy. Schools can now manage themselves however they like, provided that they do it Mr Patten's way. But school managers must be freed to manage, and not be hamstrung by Whitehall. Corporate direction which throttles should give way to local initiative which liberates.

Peter Smith and **David Hart**

The authors are, respectively, general secretary of the Association of Teachers and Lecturers, and general secretary of the National Association of Head Teachers

OBSERVER

Laying down the law

■ Observer's "Clean Breast" award for chairmanly frankness goes to former Consolidated Gold Fields director David Lloyd-Jacob. Since April 1991 he has been heading the UK's lesser known Butte Mining, whose London quote was suspended at 1½p last August compared with a £1 flotation price five years before.

Here's how he spells out his future plans in the company's annual report: "Management intends to rebuild net worth in the next few years, primarily by litigation."

He has hired a New York contingent-fee law firm to sue some of Butte's former directors, advisers and investors in the US. But it is not only the lawyers who'll be banking on the Montana court granting the damages claim of about $1bn in full.

Lloyd-Jacob and two other executives are also in for a slice of the action. He will get 3 per cent, and finance director Graham Andrews 1.5 per cent of the gross proceeds over £15m. The president of Butte's US operations Chuck Tatman is booked for ¾ per cent of the gross.

The reason, the annual report explains, is that the trio "have critical expertise without which the company and the lawsuit would not have been viable".

What's more, with Butte living from hand to mouth, all have cut their incomes and are now paid only as part-time consultants. Indeed, Lloyd-Jacob's own salary from the company has been halved to a mere £50,000 a year.

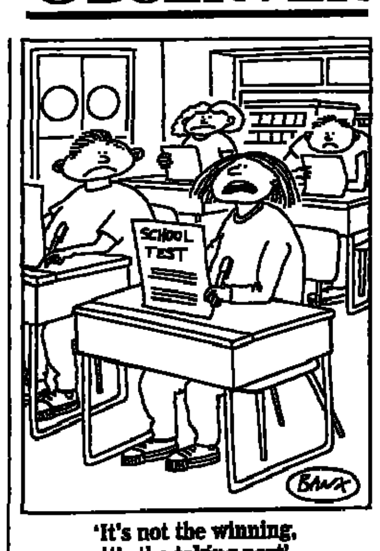
Fast growth

■ Meanwhile the law according to Parkinson looks to be exerting its grip in Bonn, where worries about the future of the Transatlantic Relationship have inspired the ever active Bertelsmann Foundation to spend at least DM4m on research into same. The study, it was announced, would be carried out by a 20-member Euro American strategy group.

Its first session yesterday was attended by eight Germans, 12 Americans, two Brits, and one each from Hungary, Sweden and Switzerland. So even without the French member, kept away by illness, the group has already expanded itself by 25 per cent.

The driving force behind the project is Chancellor Helmut Kohl's long-time confidant Werner Weidenfeld, a professor at the University of Mainz. His team includes Helmut Schmidt's erstwhile economic adviser Horst Schulmann now on the Bundesbank council, and Bob Zoellick who was deputy chief of staff to George Bush, not to mention the FT's Edward Mortimer.

The plan is to commission



'It's not the winning, it's the taking part'

searching studies into relations between Europe and North America with the aim of producing some resounding conclusions, possibly in televised form, in four years. Let's hope the alliance is still around to benefit.

Safe bet

■ When it comes to companies in distress, 57-year-old Gerald Greenwald is getting a name as the right man to call. However, he seems to have learned that it is best to stick to what he knows.

Greenwald first made his mark helping to spearhead the revival of Chrysler in the early 1980s. Then he tried his hand heading Olympia & York's debt-restructuring effort.

But he is given higher marks for his performance at Chrysler than his 10-month stint as president of O&Y, the property developer which emerged from bankruptcy protection earlier this year.

He has been mentioned as a possible replacement for Tony Ryan, chairman of the troubled GPA aircraft leasing group. But his latest chairmanship – at the suffering Czech truck-maker Tatra – looks a safer bet.

As his fellow GPA director Sir John Harvey-Jones knows to his cost, trouble-shooters have to be particularly choosy about the companies they sign up with if they're not to risk shooting themselves in the foot.

Roasted

■ The advertising and editorial sides of any newspaper tend to be worlds apart. But was it really necessary for The Daily Telegraph to carry a big advert yesterday for "Crispa Bake" Cookware next to a long feature about the kinds of music people choose for their funerals?

Comfort letter

■ The Serious Fraud Office, still wincing over the escape of Asil Nadir, may take solace from knowing that its Swiss colleagues have let not one, but two big fish slip through their fingers recently.

Werner K. Rey, head of the Omni conglomerate that collapsed two years ago with debts of SFr2bn, fled to the Bahamas early last year and has been island hopping ever since to keep one step ahead of the rather inappropriately named Beat Schnell, Bern's public prosecutor.

Then there is Jürg Heer, the colourful former credit director at Rothschild Bank in Zurich who last summer admitted defrauding the bank of some SFr30m. He disappeared in November and was last reported to have changed his name to Giorgio Bonomi and taken out an Italian passport. He even managed to shift all his goods and chattels, including a couple of highly valuable vintage cars, out of his homes in Zurich and Klosters.

Unlike Britain, a suspicion lingers in Switzerland that, in Heer's case at least, the Swiss authorities would be just as happy if he did not return. His wild accounts last year of dodgy doings at Rothschild have damaged the image of the entire Swiss private banking community, and the gnomes do not like to be reminded of it.

Sub-title

■ Here's another of those facts which may come in handy sometime, thanks to Europa Publications' International Who's Who of Women. Rock singer Tina Turner's real name is Annie May Bullock.

FINANCIAL TIMES
Thursday May 13 1993

US and China at odds over move to link trade with human rights

By Tony Walker in Beijing

THE United States is set to impose conditions on the import of billions of dollars of Chinese goods, risking a war of words with Beijing and a possible deterioration of relations.

Mr Winston Lord, assistant secretary of state for East Asia and Pacific affairs, told Chinese officials yesterday that the administration was likely to attach conditions to renewal of China's Most Favoured Nation trade status, which guarantees privileged access to the American market.

Mr Lord is the most senior State Department official to visit Beijing since the change of administration. A former ambassador to China from 1985 to 1989, he has been outspoken in his criticism of China's human rights record.

His condemnation of China's behaviour at the time of the Tiananmen Square massacre in 1989 was especially forceful. He has made no secret of his view that human rights should be a key factor in relations between Washington and Beijing.

China has warned angrily against MFN conditions relating to human rights, weapons proliferation and its $18bn trade surplus with the US, but has not spelt out how it might react beyond threatening a cooling of relations.

The clash could damage Beijing's efforts to secure the Olympics in the year 2000.

President Bill Clinton has until June 3 to rule on renewal of China's MFN status, but pressure from Congress and from within his own administration appears to be pushing him towards imposing conditions in some form.

After Mr Lord's meeting with acting foreign minister Tian Zengpei, a senior US official said: "The Chinese are under no illusion of the seriousness of the situation and of the fact that conditions are very likely. It would have taken dramatic progress [on human rights and other issues] not to have some kind of conditions."

Influential US politicians, including Senator George Mitchell and Congresswoman Nancy Pelosi, have threatened to attach conditions to China's MFN renewal if the administration fails to do so.

Mr Clinton's advisers have indicated the administration is likely to fall into line, although conditions on human rights, liberalisation of China's own trade regime and weapons proliferation may be less rigorous than demanded by some congressmen.

Mr Clinton, said the US official, wanted to find common ground with Congress on the MFN issue. Whatever form the conditions took, "they obviously will be serious ones," he said. "The objective is to make progress and not to lose MFN, which would have harmful effects."

The previous administration vetoed attempts by Congress to impose conditions on China's MFN status. It argued that such a step would jeopardise access for US business to the booming China market. Opponents of unconditional MFN, including such influential figures as Democrat senator George Mitchell have pointed to China's huge trade surplus with the US as a strong argument for conditionality. China denies such a large surplus. It disputes US inclusion in the figures of goods exported through Hong Kong.

The senior US official said China's human rights performance had shown a "marked improvement", but there was clearly room for improvement.

US trade policy begins to emerge, Page 6

UK record companies told to cut compact disc prices

By Michael Skapinker, Leisure Industries Correspondent, in London

BRITAIN'S major record companies and record shops have been told that they should cut the price they charge for compact discs by at least £2 ($3).

A government appointed committee said the music companies which gave evidence to its inquiry last month had failed to explain adequately why full-price CDs were between £1.50 and £2 cheaper in the US than in the UK.

The companies had been even less convincing in explaining why dealer prices for full-price CDs were £2.50 higher than the equivalent cassettes when production costs were the same.

The committee, chaired by Labour member of Parliament Mr Gerald Kaufman, said that while it had "found no evidence of formal or overt collusion, it considers that the major record companies and the retailers are effectively cartels, and indeed partly interlocking cartels."

The committee yesterday called for the dealer price of compact discs to be cut by at least £2 and for an inquiry into restrictions on CD imports.

Mr John Deacon, director-general of the British Phonographic Industry, which represents UK music companies, said he was not surprised by the committee's report.

He added: "In the biased and prejudiced way the Kaufman committee chose to take evidence, there was never a likelihood that there would be a fair debate on the issues."

The committee's report is expected to be followed in the next few days by a recommendation by Sir Bryan Carsberg, the government's director-general of fair trading, that the music industry should be investigated by the Monopolies and Mergers Commission.

The committee said a £2 cut in dealer prices "is the minimum that is required". It also criticised retailers for failing to use their power to demand lower prices from manufacturers. It asked the Department of Trade and Industry to investigate whether import restrictions and copyright law had an anti-competitive effect on the industry.

The committee exempted small independent companies from its criticisms. It accepted that their costs and overheads were high and that they would not survive if they reduced prices substantially.

It added that it had received evidence that some independent producers had seen their products sold by retailers at a higher price than they wished. One company had asked for its CDs to be sold for £11 but retailers had insisted on a price of £13 or higher.

Mr John Gorst, a Conservative committee member, said there was evidence that the top 40 chart was rigged. To promote new releases, music companies gave CD singles to retailers free. The retailers then sold them for less than £1 each.

Strikes win wide support in German union ballot

By Judy Dempsey in Berlin

IG METALL, Germany's engineering union, yesterday received overwhelming support for further strike action in eastern Germany after balloting metal and electrical workers in three of the region's states.

More than 82 per cent of the union's 72,000-strong membership in Thuringia, Berlin-Brandenburg and Saxony-Anhalt voted in favour of action for higher pay.

Backed by such a mandate, the union's leadership, headed by Mr Franz Steinkühler, will today hold a special meeting to decide how many more enterprises in eastern Germany will be targeted for strikes and where action should take place.

More than 40,000 workers from 90 or more enterprises are now on strike to persuade employers to reinstate a contract signed with the union in March 1991 which sought to equalise eastern and western wages by next year. About 10,000 west German workers yesterday held token stoppages in solidarity with the easterners.

The contract would have meant pay rises exceeding 20 per cent for the metal, electrical and steel sectors in eastern Germany. But the employers cancelled it because of the country's deteriorating economy.

The threat of further strikes coincides with the resumption today of crucial talks between employers and union in the Saxon capital of Dresden. Mediated by Mr Kurt Biedenkopf, the prime minister of Saxony, they could lead to a negotiated settlement of the 12-day-old strike.

Both Mr Dieter Kirchner, head of Gesamtmetall, the metal and electrical employers' association, and Mr Michael Kittner, IG Metall's main legal expert, will attend.

Hungary faces row over US payments

By Nicholas Denton in Budapest

THE Hungarian government faces a politically embarrassing row following revelations that a US government-financed investment fund has been paying a large part of the salary of the chairman of Hungary's state holding company.

The Hungarian-American Enterprise Fund (HAEF), the $60m institution set up in 1990 to boost the Hungarian private sector, admitted yesterday it was paying Mr Pal Teleki, chairman of Hungary's state holding company, AV RT, about $130,000 annually. The payment is much larger than Mr Teleki's basic Hungarian salary from AV RT.

The admission is expected to fuel the anger of nationalists, who accuse the conservative coalition government, led by Mr Jozsef Antall, of favouring foreign investors who, they allege, have dominated the Hungarian privatisation process to the detriment of potential local investors.

US companies have been the most active investors in Hungary to date and confirmation that the US fund has been subsidising the salary of the man in charge of about half the country's business sector is expected to cause a major political outcry.

The AV RT controls Hungary's major utilities and the biggest banks and industrial companies. Its portfolio is worth about Ft1,500bn ($16.7bn) and includes many of the country's choicest privatisation prospects.

US and Hungarian officials yesterday defended the subsidy as essential for the AV RT to attract Mr Teleki, a Hungarian-American who formerly worked as a geologist for the US government. "Mr Taleki was ideally suited to do the job," Mr Alexander Tomlinson, president of the HAEF said.

But several Hungarian officials criticised the US fund's actions, saying Mr Teleki's US connection raised conflict of interest issues.

The exposure of the large payments to Mr Teleki has hit the HAEF at a vulnerable time. The fund was recently attacked by US Congressmen for allowing its independent merchant bank to pay excessive salaries and make deals outside its defined area.

British hijack Danish referendum

Hugh Carnegy and Hilary Barnes see the scourge of Maastricht in action

THE BRITISH hijacked Denmark's Maastricht referendum contest yesterday to the bemusement – and some irritation – of the Danes.

British politicians, trailed by British camera crews and British reporters, traded insults and doled out advice to the Danes in the ante-chambers of the Folketing, the Danish parliament, all in English of course.

In one corner was Lord Tebbit, erstwhile Conservative cabinet minister, scourge of Maastricht and political street-fighter of repute. Lord Tebbit was invited to Copenhagen by the June Movement, fellow-travellers campaigning for a repeat of the "No" verdict by Danish voters last June.

In the other, seeking to blunt whatever impact Lord Tebbit might have, was the scholarly Mr Giles Radice, Labour MP and guest of the governing Social Democratic party.

Lord Tebbit, Mr Radice warned at a press conference, was a "xenophobic meddler" with no genuine concern for Denmark. The referendum, he said earnestly, was "not something the British should interfere with at all" glossing over what he was doing in Denmark himself.

Summoning up a look of injured indignation, Lord Tebbit protested. His objections to Maastricht were based not on xenophobia but on a belief that it would do great damage to the European Community. "Is it meddling to tell the Danish people what I as a European citizen believe?" he asked reasonably enough. "Are we to have free movement of goods but thought police at our borders?"

It is a moot point what effect, if any, such interventions will have on Tuesday's vote. The latest Gallup poll published yesterday showed that the longstanding Yes lead had stiffened a little after a spell of steady erosion by the No vote. The poll showed 49 per cent in favour and 32 per cent against, compared with a gap of 46-34 at the weekend, with 14 per cent undecided and the balance resolved not to vote.

The respected pro-Maastricht newspaper Berlingske Tidende had sharp words for the British visitors, also taking a swipe at Sir James Goldsmith, financier turned crusader, who has paid for full-page newspaper advertisements in Danish papers advocating a No vote.

The British, said the paper, "are not welcome to consider the vote as a substitute for the referendum which they themselves will not have, let alone treat the Danish voters as puppets who can be used to vote no for reasons of British domestic politics."

Ulterior motive or no, Lord Tebbit said a second Danish No vote would stop British ratification of Maastricht in its tracks and that Denmark would not subsequently be isolated or pushed out of the European Community.

Yes campaign propaganda to that effect played on "fear, ignorance and sheer misstatement of facts," he added.

Maastricht, said Lord Tebbit, was designed to guard against the inconceivable threat that the Germans would once again "get in their Panzers and roll across Europe." They might do so in their Mercedes and BMWs, he said, but that showed the need for a structure to encourage competition and help emerging democracies in Europe develop.

World Weather

		°C	°F
Ajaccio	F	21	70
Algiers	F	21	70
Amsterdam	S	23	73
Athens	S	20	68
Bahrain	C	27	81
Bangkok	F	37	39
Barcelona	C	18	64
Beijing	C	18	64
Beirut	C	21	70
Belfast	S	14	57
Belgrade	S	25	77
Berlin	S	26	79
Bermuda	F	21	70
Bombay	S	33	91
Bordeaux	F	20	68

		°C	°F
Boulogne	C	14	57
Brussels	F	21	70
Budapest	S	26	79
Buenos Aires	F	19	66
Cairo	F	23	73
Cape Town	F	18	64
Caracas		-	-
Casablanca †	F	21	70
Chicago †	S	17	63
Cologne	F	20	68
Copenhagen	S	21	70
Corfu	S	21	70
Dallas †	S	13	55
Dublin	S	13	55
Dubrovnik	S	22	72
Edinburgh	C	9	48
Faro	S	20	68
Florence	T	22	72

		°C	°F
Frankfurt	F	21	70
Geneva	R	13	55
Gibraltar	C	19	66
Glasgow	S	13	55
Helsinki	S	20	68
Hong Kong	F	29	84
Innsbruck	F	22	72
Inverness	C	8	46
Islamabad	F	32	90
Istanbul	R	11	52
Jakarta	R	32	90
Johannesburg	S	23	73
Lisbon	R	17	63
London	F	16	61
Los Angeles †	S	14	57
Luxembourg	R	18	64
Madeira	C	20	68
Madrid	C	18	64

		°C	°F
Majorca	F	22	72
Malaga	R	18	64
Malta	S	21	70
Manila	F	36	97
Melbourne	F	16	61
Mexico City	F	22	71
Miami †	F	22	72
Milan	R	16	61
Montreal †	S	15	59
Moscow	S	21	70
Munich	F	18	64
Nairobi	F	24	75
Naples	F	24	75
Nassau	C	27	80
New Delhi	S	35	95
New York †	S	21	70
Nice	S	20	68
Nicosia	F	21	70

		°C	°F
Oporto	F	16	61
Oslo	S	20	68
Paris	F	19	66
Prague	S	24	75
Reykjavik	S	9	48
Rhodes	S	19	66
Rio de Janeiro	F	33	92
Rome	F	21	70
Salzburg	F	23	73
S'Francisco †	S	9	48
Seoul	C	22	72
Singapore	F	32	90
Stockholm	S	21	70
Strasbourg	F	22	72
Sydney	S	22	72
Taipei	F	31	88
Tangier	C	19	66
Tel Aviv	F	18	64

		°C	°F
Tenerife	F	21	70
Tokyo	S	24	75
Toronto †	S	16	61
Tunis	S	22	72
Valencia	S	22	72
Venice	C	20	68
Vienna	S	24	75
Warsaw	S	25	77
Washington †	S	22	72
Zurich	F	19	66

Temperatures at midday yesterday
† Noon GMT temperatures
C-Cloudy Dr-Drizzle
F-Fair Fg-Fog H-Hail
R-Rain S-Sunny
Sl-Sleet Sn-Snow
T-Thunder

THE LEX COLUMN

ICI's leap in the dark

The financial engineers who dreamed up the Zeneca rights issue as a way of paying off ICI's debt may be a little disappointed. Splitting a pharmaceuticals company with a fancy rating from dowdy ICI may have made financial sense when Hanson spotted the opportunity two years ago. Now the demerger has cranked through the system, it looks like yesterday's idea – particularly since it also involves dumping a £1.3bn rights issue on the worst performing FT-A sector in 1993. Sir Denys Henderson, ICI's chairman, has always argued for demerger on industrial, rather than financial, grounds. But the notion that nothing less than fission of the company is enough to change ICI's culture is a tacit admission of management failure.

That severed management is now faced with the same job it had before – getting performance out of the parts of ICI. Greater focus may result in the ICI bulk side being rationalised more quickly. Petrochemicals operations such as ethylene may be sold to oil companies which seem increasingly likely to dominate the sector. ICI will have to specialise in those niche markets where it has a technological edge or market dominance – and hope that those niches do not become tombs. Zeneca may be freer to generate the hard marketing edge which characterises other drugs companies. But the financial resources of a combined strong balance sheet will be lost. That limits the flexibility of either company to develop into new capital intensive markets in future. The corollary of greater focus is that neither company can afford to slip. In the short term, shareholders will doubtless be attracted by the guaranteed yield. Further out, the case for the great experiment remains unproven.

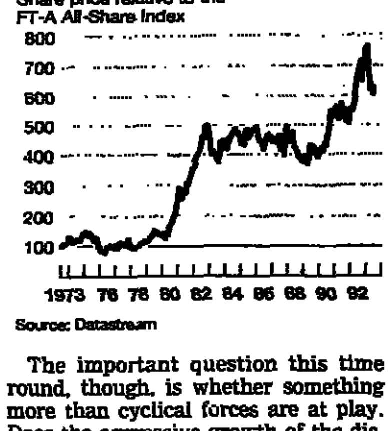
J. Sainsbury

In the real world of groceries, J. Sainsbury maintained its serene progress last year, registering a 17 per cent advance in annual profits. In the unreal world of finance, Sainsbury's shares have fallen by a similar percentage since the start of the year, making it the sixth worst performing FT-SE 100 stock. The company's derating owes much to the normal turn of the investment cycle. At this stage of the game, defensive food retailing stocks go out of fashion as investors chase recovery situations and overseas earners. Much the same happened in 1982 when the UK last emerged from recession.

FT-SE Index: 2860.8 (+24.7)

J Sainsbury

Share price relative to the FT-A All-Share Index



Source: Datastream

The important question this time round, though, is whether something more than cyclical forces are at play. Does the aggressive growth of the discounters and the maturity of the superstore operators' development programmes presage an end to the sector's remarkable earnings gains? Although such concerns may be pressing by the end of the decade, Sainsbury's latest figures suggest a pessimistic conclusion would be premature.

Respectable sales volume growth, continuing productivity gains and the addition of new space at an annual rate of around 8 per cent points to maintained earnings momentum for the next few years at least. The retailer's best friend – inflation – may also return to lend a hand. The market may soon warm again to the sector's virtues of steady earnings increases and solid dividends, especially if the broader recovery disappoints. By the second half of the decade, the big food retailers' ratings may depend upon their success in diversifying. Sainsbury's efforts may then have to be on a far grander scale if it is to sustain a premium status.

Currencies

It is curious how little attention the currency markets paid yesterday to the jump in US producer prices. Perhaps one reason is that the dollar has already risen more than three pfennigs over the past week. Another is that the figures were distorted by higher tobacco prices. But the overriding factor is continuing uncertainty over the degree to which the recovery is accelerating again after the disappointing first quarter. Last week's employment data failed to provide conclusive evidence one way or another. Today's retail sales data may prove a better pointer. Reasonably strong figures would imply a boost for industrial production later in the quarter as inventories are rebuilt.

Until confidence in the recovery returns, though, the dollar's scope for appreciation will remain limited, which gives the Bundesbank more room for manoeuvre. That is just as well when German bond markets face heavy supply of public sector paper and Mr Theo Waigel's future as finance minister is uncertain. Yesterday's reduction in the Bundesbank's money market repurchase rate makes a cut in the official discount rate – now a mere 35 basis points below money market rates – more likely next week. Whatever happens in the Danish Maastricht referendum, the bank will at least be able to say it did its bit for Europe.

Body Shop

At least Body Shop International is now fighting back. Whether the company will succeed in re-establishing its brand position in the UK is another matter. The problem is not only doubt over whether the fashion for environmentally friendly cosmetics is passé and over Body Shop's ability to attract older customers. It is also one of whether margins can be recaptured, given the competition from Boots and others. Body Shop will try very hard to convince consumers that its products are of superior quality, but persuading them to pay premium prices could prove an uphill struggle in an age where customers appear more concerned with value than brand image.

Without a solid base in the UK, international expansion, which is seen as the main engine of growth, would be all the harder. Like for like sales growth of 6 per cent in overseas markets outside the US is encouraging, and US operating profits more than doubled after stripping out the cost of moving the head office to North Carolina. But competition in the US is growing. While Body Shop is not doomed to fail, it is not doomed to succeed either. Given that uncertainty, an historic multiple of nearly 28 looks stretched. Perhaps that is why Body Shop is touting the interest in its shares which has surfaced in the US. Its new ADR facility could prove a source of demand, although US investors are every bit as fickle as the British buyers of pineapple facial wash.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday May 13 1993

INSIDE

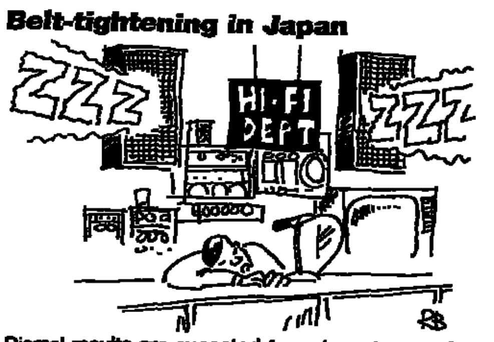
Chargeurs expects loss at division

Chargeurs, the French textile and media group, warned that its industrial activities would incur a first-half loss because of a rationalisation package involving 1,000 job losses. The group, a leading international player in wool textiles and significant shareholder in BSkyB, the UK satellite television service, plans to close a wool processing plant in Argentina and reduce French manufacturing capacity. Page 19

Germany's agrochemical surprise

The announcement that German bioscience group Schering may merge its agrochemicals business with German chemicals giant Hoechst, creating a new number two in world agrochemicals, surprised observers. The sector has been severely battered, but while there is synergy between Hoechst and Schering products, geographical arguments for a link are not overwhelming. Page 19

Belt-tightening in Japan

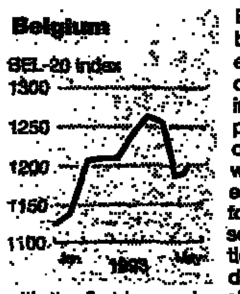


Dismal results are expected from Japan's manufacturers, service companies and financial institutions, highlighting the effects of recession. Among consumers, a seemingly insatiable thirst for material goods during the years of asset inflation in the late 1980s has been replaced by a widespread mood of frugality. Page 22

Moscow exploration call

The Russian government has announced the second tender in two years inviting foreign companies to develop offshore oil and gas fields on the continental shelf off the island of Sakhalin. Page 26

Brussels feels turbulence



Brussels was among the best performing European equity markets in the first quarter of 1993, the Bel-20 index rising by nearly 12 per cent. But Belgium's other financial markets were experiencing unprecedented turbulence. Investors took fright after a series of unsettling domestic political and economic developments, starting with the first in a series of reforms that will turn the country into a federal state. Back Page

Changes to Liffe equity options

The Liffe equity options table on page 23 contains the following additions from today: Argyll, National Westminster, Redland, Royal Insurance, Tarmac, Tomkins, Williams. Liffe will no longer make new contracts available on the following companies, which will remain in the table until expiry of the longest dated expiry month: Eurotunnel, GKN, Scottish & Newcastle, Vaal Reefs.

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Aachen Mch	885	+	20	Cr Fonc France	1031	+	38
Leifheit	520	+	11	Fonc Lyonnaise	660	+	20
MAN	274	+	8.4	Par Reescompte	349	+	11.9
Metallgesell	312	+	10	UAP	534	+	18
Preussag	347.5	+	11	Worms Cie	263	+	13
Falls				**Falls**			
Badenwerk	375	–	10	Chargeurs	1015	–	60
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Alliance Pharm	9¾	+	1¼	Ishii Precision	558	+	58
Chevron	87¾	+	1¾	Nichibei Fuji	350	+	38
Fed Dept Stores	21	+	⅜	Riken Kaiki	750	+	100
Wal-Mart	27½	+	1⅛	Tofuku Flour	479	+	86
Falls				**Falls**			
Philip Morris	50¾	–	1⅞	Fujitsu	780	–	22
Woolworth	28¾	–	½	Toshiba	711	–	21

New York prices at 12.30pm.

LONDON (Pence)				Sanderson El	332	+	17
Rises				TI Group	337	+	12
Acatos Hutchen	219	+	12	Tarmac	133	+	7
Aztec (BSR)	56½	+	3½	Time Prods	215	+	30
Banner Homes	51	+	6	Unigroup	44	+	4
Cooper (F)	57	+	5	**Falls**			
Emess	29	+	3	Bibby (J)	109	–	15
Gaskell	109	+	11	Eurotunnel	380	–	15
Geest	412	+	16	Gestetner	120	–	10
Guinness	489	+	14	Jessups	92	–	6
HSBC (75p)	608	+	18	Real Time Ctrl	77	–	5
Headlam	144	+	6	Sainsbury (J)	487	–	14
Kleinwort Bnsn	404	+	15	Simon Eng	73½	–	26½
Lonrho	114	+	6				
Norex	185	+	12				
Oriel	87	+	9				

GPA may get funds from GE Capital

By Roland Rudd in London

GPA Group, the troubled aircraft leasing company, hopes to sign an agreement in principle to obtain an investment of more than $300m from GE Capital, General Electric's financial services arm.

GPA was last night in talks with GE Capital, and is expected to make an announcement today.

Such a deal may involve GE Capital subscribing for new GPA shares and buying some of the group's prime assets in exchange for new finance. However, it was not clear whether the deal will prove acceptable to all of the group's lenders.

Some of the banks fear such an agreement could lead to GPA selling its most lucrative leases and assets in exchange for GE Capital taking a controlling stake.

Irrespective of whether the talks are conclusive, GPA is unlikely to ask its bondholders for a debt moratorium, when it meets them today in New York. Instead, it plans to give them a financial update on the company.

It hopes that a deal in principle with GE Capital may be enough to persuade its banks to pay bondholders.

GPA has a temporary waiver of its banking covenants until May 17, when more than $50m of bonds mature. A further $170m of bonds mature by the end of June.

If a deal cannot be signed with GE Capital within a week, GPA will be forced to ask bondholders for a moratorium on bond payments, since the banks will not allow them to be paid.

One of the group's biggest lenders said: "I fear that a moratorium with bondholders will inevitably led to examination [the Irish equivalent to administration]. The only sure way to avoid it is to persuade a strategic investor to inject equity into the company."

However, two of its bankers said they would not support the deal if GE Capital takes the best assets in return for subscribing for new shares.

"I do not want GPA to end up as a liquidation trust unable to generate sufficient cash flow to pay off all its creditors," said one.

The talks have been led by Mr Gary Wendt, chief executive of GE Capital and Mr Tony Ryan, GPA's chairman and founder.

Mr Wendt, a former non-executive director of GPA, is understood to have assured Mr Ryan of his continued support as chairman if the deal goes through.

Mr Ryan recently fought off an attempt by two of GPA's executives to have him replaced

If the talks with GE Capital do not prove conclusive or fail to win the support of all its lenders then a debt-for-equity swap with the bondholders is seen as inevitable.

GE Capital owns Polaris Aircraft Leasing, one of GPA's big competitors with more than 400 aircraft on lease.

It once owned a 22.7 per cent stake in GPA but sold it in the mid 1980s for a profit of more than $50m.

Future in the balance, Page 18

Group uses rule 144A for private placement by Lehman Brothers

Nestlé looks to institutions in SFr1bn US rights issue

NESTLE, in a pioneering initiative likely to be followed by other large European companies, is arranging for US institutional investors to participate in its imminent rights issue, writes Ian Rodger in Zurich.

Nestlé, the world's largest foods company, is invoking a 1990 US Securities and Exchange Commission rule which permits non-US registered companies to make offerings to "qualified institutional buyers".

Rule 144A has been used up to now to enable non-US registered companies to float new debt and equity issues in the US. Nestlé is the first to use it for a rights issue.

Nestlé believes that about 15 per cent of its shares are held by US investors, most of them institutions. Until now, these investors have not been allowed to participate in the group's rights issues because of US legal restrictions on fundraising by non-US-registered companies.

"This [the restriction] was not very fair and it depressed the market for the rights," Mr Reto Domeniconi, finance director, said at the group's annual press conference yesterday.

Mr Helmut Maucher, the chairman, told the meeting that first-quarter group sales rose 6 per cent to SFr13.5bn ($9.2bn). Only 1 per cent of the growth was volume, with another 1 per cent from monetary effects and the rest from acquisitions.

Mr Maucher was confident, however, that the group would have "a decent profit and sales increase this year". In 1992, Nestlé's net income was SFr2.7bn on sales of SFr54.5bn.

Mr Domeniconi said the extension of the rights issue to US institutional shareholders will be done in the guise of a private placement lead managed by Lehman Brothers International. Individual US Nestlé shareholders still cannot exercise their rights.

The rights issue was launched following last year's FFr13.3bn ($2.45bn) takeover of the Perrier mineral water group which up to now has been financed by short-term borrowing. The rights will be on a one-for-25 basis at a price to be set after May 27.

Mr Domeniconi said the issue would raise more than SFr1bn. The Perrier acquisition was largely responsible for the sharp rise in the group's net debt from SFr4.5bn at the end of 1991 to SFr9.9bn at the end of last year, 67.7 per cent of total capital.

However, imminent sales of some Perrier subsidiaries would bring the final acquisition cost down to about SFr2.3bn.

Nestlé is one of a few big European companies considering applying for a listing on the New York Stock Exchange. However, Mr Domeniconi argued that meeting the exchange's disclosure requirements would require a "tremendous effort" but would not give shareholders better information than they had now.

Helmut Maucher, Nestlé chief executive, in Zurich yesterday said he expects profits to rise again this year

Kodak promises improved earnings

By Martin Dickson in New York

MR KAY WHITMORE, chairman of troubled Eastman Kodak, yesterday promised investors a sharply improved performance and forecast record 1994 earnings per share, yet was met with a substantial protest vote by dissatisfied shareholders at the annual meeting.

The meeting was held against a background of rising concern by some of Kodak's largest institutional investors over its lacklustre financial performance.

This anxiety was reinforced late last month when Kodak's share price fell sharply after Mr Christopher Steffen, the company's chief financial officer, quit after only 11 weeks, because of differences with Mr Whitmore over the best way to restructure the business.

Three Kodak directors up for re-election yesterday won overwhelming support from shareholders, getting 96.2 per cent of votes cast, but investors sent a strong message of dissatisfaction by casting 42 per cent of ballots in favour of a proposal to make the entire board stand for re-election every year.

The College Retirement Equities Fund (CREF), the single largest managed equity fund in the US which holds 1 per cent of Kodak's shares, announced it had withheld support for the three directors because of its conviction that "Kodak has continued to delay restructuring and effective management decisions". It distrusted the company's willingness to make "long overdue changes".

Mr Whitmore told the meeting in Fort Lauderdale, Florida, that Kodak would generate substantially more cash flow between now and 1995 than the previously stated target of $1bn.

He repeated that he expected a solid increase in 1993 earnings, compared to 1992.

Research and development spending would be reduced as a percentage of sales; selling, administrative, distribution and advertising costs would become more comparable with peer companies; and there were likely to be "major changes in the asset base" – an apparent reference to the disposal of businesses.

He repeated that a plan to improve performance would be revealed by September and announced the establishment of a new board committee to take part in major financial decisions, replacing one with a narrower financial focus.

News Corp doubles to A$668m on cut in interest charges

By Bruce Jacques in Sydney and Raymond Snoddy in London

NEWS Corporation, the Australian-based media group, yesterday reported doubled net profits of A$668m (US$466m) for the nine months ended March, following a strong third quarter.

Lower interest costs and strong performances from associates were the main reasons for the improvement, while the bulk of the group's core businesses made steady gains. Revenue rose by 3 per cent to A$8bn.

Associated companies, mainly BSkyB – the UK-based satellite broadcasting arm – in which Pearson, owner of the Financial Times, has a significant stake, Ansett Transport Industries, the Australian airline, and Pacific Magazines, the Australian publisher, turned round their contribution from a A$76.8m loss to a A$112m profit in the nine months.

News Corp said BSkyB's weekly revenues were exceeding £7m and weekly operating profits more than £1.7m at the end of March compared with break-even a year earlier. Ansett had moved from loss to profit with better yields on improved passenger numbers.

The group said continued debt reduction and falling interest rates cut News Corp's total interest expense by 22 per cent to A$567.8m.

News Corp continued to derive the majority of its earnings in the US where operating income rose from $A654.9m to $A686.6m.

The Fox television businesses increased earnings almost 20 per cent, but earnings from the Twentieth Century Fox Film division fell significantly.

Magazine and inserts operations lifted earnings by 17 per cent, profit from TV Guide rose 27 per cent, but the HarperCollins book group had an earnings fall in the period in spite of a slightly improved latest quarter. UK activities lifted their operating income from A$275.3m to A$313.6m in the nine months.

The company's newspapers had continued to lift results through efficiencies in a flat market.

BSkyB now has 2.3m homes subscribing to at least one of its services with 1.6m subscribers to the Sports Channel.

The company says the numbers of homes receiving Sky channels is increasing at an average rate of more than 20,000 a week through satellite dishes and cable television.

In the autumn BSkyB will scramble all its channels and offer a "basic package" of at least 10 channels for around £4 (US$6) a month. This will be free to all those subscribing to both the BSkyB film channels and the sports channel.

Chargeurs results, Page 19

Anglo American rejects Gencor unbundling lead

By Philip Gawith in Johannesburg

ANGLO American Corporation, South Africa's largest company, said yesterday it would not be following Gencor's policy of unbundling into smaller units.

It said that while unbundling might make sense for some groups, it did not believe that its current structure required it.

Anglo's statement follows Tuesday's announcement by Gencor, the country's second largest mining house, that it will be distributing all its non-mining assets to shareholders, so halving its size.

Anglo, with its complex corporate structure, has long been considered by both politicians and analysts as a likely candidate for unbundling. Yesterday's statement makes clear that South Africa's other large corporates will not necessarily be following Gencor's lead.

Since the issue of unbundling was first raised three years ago, Anglo has vigorously defended its size. It says it is a mining finance group "with different levels of holding and operating companies, many of which are listed, with separate though overlapping shareholders".

Without mentioning Gencor, Anglo stressed its structure has neither a controlling company (Sanlam in Gencor's case) "nor any pyramid structures designed purely for holding purposes" (Gencor's Genbeheer). It also said more than 50 per cent of its shares were held publicly.

Anglo said its size helped it undertake large capital projects while the geographical and product diversity of its assets conferred contra-cyclical benefits.

ICI expects to raise £1.3bn with Zeneca rights issue

By Paul Abrahams, Norma Cohen and Maggie Urry in London

IMPERIAL Chemical Industries yesterday set the terms of its demerger and fund raising, pricing the rights issue for its Zeneca bioscience offshoot at 600p.

The price was at the top end of expectations, but the issue was cut from the expected 1-for-3 basis to a 5-for-16 offer, involving the issue of about 225m new shares, raising £1.3bn ($2bn). This brought some relief to the shares, with existing ICI shares rising 22p to 1385p yesterday.

Documents relating to the rights and listing of the demerged shares showed the chief executives of the two new companies are to receive pay rises.

Mr Ronnie Hampel, who is adding deputy chairman to his title of chief executive officer at new-ICI, will be paid £425,000, up from £340,840.

Mr David Barnes of Zeneca will get £325,000, up from £285,000, and from a previous £257,340 before a pay rise he received in January when the demerger took effect operationally. Each will have a three-year contract.

Mr Hampel's retirement date was set for September 30 1995, and he will get a bonus of between 50 and 100 per cent of his final-year salary when he goes.

Brokers said the issue was tightly priced. One said institutional investors ranged from "distinctly unimpressed to downright anti" Zeneca shares.

However, shareholders recorded general satisfaction with the Zeneca deal, noting that the underwriters had to achieve a pricing at a time of turmoil in the US pharmaceuticals market.

Institutions said that the underwriters had apparently been able to place the entire sub-underwriting. Last week, institutions who gave firm commitments to underwrite their allocation at roughly £6 per share were promised additional allocations.

As a result, institutions which only last night decided they liked the terms found themselves unable to increase their allocation. "We would have taken more. It's money for nothing," said one shareholder with roughly a 1 per cent stake in ICI.

At the rights price, the Zeneca shares yield 5.7 per cent on the forecast dividend of 27.5p for the year. The p/e is 13.3 historic on pro-forma earnings per share of 45p. "The pricing was sensible," said one shareholder, noting that at 600p the prospective p/e will be roughly 12. This compares with multiples of 14 and 15 for other pharmaceutical stocks.

On the grey-market, which opened trading in the new-ICI, Zeneca ex-rights and Zeneca nil-paid shares yesterday afternoon, investors switched from Zeneca to new-ICI.

Zeneca ex-rights fell from a first price of 682p to 664p, little more than a 10 per cent premium to the rights price, where they yield 5.2 per cent. That compares, institutions said, with a yield for Glaxo of 3.5 per cent or Wellcome of 2.5 per cent.

The nil paid fell from 86p to 66p. New-ICI shares rose from 585p to 609p.

Official trading in the shares will start on June 1, so long as shareholders approve the demerger at a special meeting on May 28.

Lex, Page 16

GPA GROUP: THE REFINANCING

Starting with $50,000 seed money in 1975, Tony Ryan built GPA Group into the world's largest aircraft lessor. But over-ambition, a flawed financial strategy and recession have driven GPA into last-ditch talks with its creditors starting today in New York. GPA's – and Ryan's – role in the industry hang in the balance.

Bankers share the blame for debacle

By John Plender

IT IS no mean feat for a company to come so close to seeking protection from its creditors within less than 15 months of reporting profits of $279m (£181m).

But GPA is no ordinary undertaking; and the fact that it rose so far and fell so fast owes as much to the bizarre decisions of its bankers as to the mistakes of the management, headed by the founder, entrepreneur Mr Tony Ryan.

GPA took off on the basis of a classic market opportunity.

In the recession of the early 1980s, after the huge increase in fuel prices that followed the second oil shock, airlines were financially stretched.

In the US their problems were compounded by deregulation. Aircraft manufacturers found their order flow shrinking at an alarming rate.

For GPA and other companies in the operating lease business, this meant that aircraft were available cheaply and airlines welcomed new sources of off-balance sheet finance. Mr Ryan and his Shannon-based team seized the opportunity just in time for the economic upturn.

What might have been a viable operation in the long run then became something altogether more dangerous, as Mr Ryan's ambition coincided with the urgent need of big international banks to find new clients.

In the aftermath of the Latin American debt crisis, the banks found their credit ratings were lower than those of their big corporate clients, who promptly decided to cut out the banking middlemen and go direct to the markets for funds.

In their search for replacement business, the banks turned to higher-risk lending.

At the same time, the Japanese banks, which came to account for 38 per cent of GPA's credit facilities by 1990, were seeking to internationalise their operations.

Aggressive accounting (whereby profits on the sale and leaseback of aircraft were taken immediately instead of being spread over the term of the lease) combined with a veritable cascade of bank money, helped GPA's pre-tax profits rise from $17.4m in 1985 to $279m in 1992.

But the risks were mounting phenomenally, as the fleet of aircraft owned by GPA rose from 40 to 400 in the same period.

Among those risks were:

● Operational gearing in the market itself.

Analysts estimated at the end of the 1980s that every 0.5 per cent variation in the growth of demand for aircraft between 1990 and 2000 would lead to a variation in the worldwide fleet, needed to satisfy that demand, of 700 aircraft – this on a total jet fleet at the time of 8,300.

Given that GPA's profits and solvency hinged substantially on making sound judgments about the balance of supply and demand in the aircraft market, the implicit leverage was potentially lethal.

● Mismatching of costs and revenues.

GPA's operating leases with airlines mainly ran for five to seven years, which was much less than the life of the aircraft. If the leases fell in, or were terminated when demand was weak, GPA, the owner, could find itself paying financing and other costs on aircraft that were not producing revenue.

Rarely can so much have been borrowed by so few, on the basis of so insubstantial a balance sheet

● Weak residual values of aircraft.

Since GPA became increasingly dependent for its profits on the sale and leaseback of aircraft, any decline in values was threatening. It would also reduce collateral for further finance and deter investment demand.

● Lack of creditworthiness of many airlines, both in the US and the Third World.

With so many inherent hazards in the business, GPA needed a substantial cushion of equity to help minimise risks.

Instead the banks permitted a degree of financial gearing that looked absurd long before the company ran into trouble.

In the five years before the abortive attempt to float the company last year, GPA's liabilities soared from $892m to a stunning $5.3bn.

Share capital and reserves in 1992 of $1.2bn were dwarfed by firm commitments to buy aircraft in future years of $9.4bn, plus options to purchase a further $8bn more.

GPA thus found itself trying to make an international offer of equity shares last year with a prospectus that baldly stated that "there can be no assurance ... that adequate sources of capital will be available to fund the group's aircraft purchase commitments."

This was, in short, a spectacular banking aberration.

Rarely can so much have been borrowed by so few, on the basis of so insubstantial a balance sheet.

Yet the principles involved bear some similarity to those that prevailed in the British fringe banking fiasco of the mid-1970s.

Then, the Bank of England instructed the clearing banks to reduce their lending to an overheated property market. But the banks simply lent more to the secondary banking system, which promptly ploughed money into speculative developments at the peak of the market. The clearing banks thus suffered huge provisions and write-offs when property prices fell and the fringe collapsed.

By the same token, the existence in the 1980s of aircraft leasing companies – specialist fringe financiers – made it easier for the banks to convince themselves that they were not exposing themselves to the obvious risks of the overstretched airline companies. They took comfort from residual aircraft values at the end of the lease. Yet the risks have come home to roost nonetheless.

One of the more remarkable things in all this is that GPA's management has succeeded in keeping the proportion of non-revenue earning aircraft in its fleet to surprisingly low levels, given the weak market.

Yet the immensity of the financial burden has made a nonsense of the effort. And GPA's financial crisis is now compounded by the fact that its business is so structured that any slow down has penal consequences.

Large discounts and credits received from aircraft manufacturers become repayable where GPA goes back on its purchase commitments.

In selling aircraft to investors, it has guaranteed to meet a proportion of any shortfall against stipulated values on subsequent sale of the aircraft.

And since many investors bought aircraft from GPA on the understanding that it would remarket the aircraft in due course, GPA's ability to sell aircraft will be substantially damaged if investors conclude that its survival, and its ability to fulfil the undertakings, are threatened by the present financial upheaval.

The American humourist Ogden Nash once remarked that bankers are like everyone else, except richer. As one City wag remarked: Should he have said stupider?

Purchase policy that led to scramble for equity

By Roland Rudd

SEVEN YEARS after Mr Tony Ryan founded GPA Group he made a decision which appeared inspired but which eventually brought the aircraft leasing group to its knees.

Instead of only leasing used aircraft, Mr Ryan ordered 100 aircraft direct from the manufacturers, telling his directors "to ignore the price of aircraft and look at the logic of what we were doing."

By 1986 GPA was positioned to exploit the world-wide aircraft shortage that developed in the late eighties.

But as Mr Craig Jenks, head of the New York-based Airline/Aircraft Projects Consultancy, says: "GPA's appetite for low credit and high margin deals expanded as swiftly as the availability of finance allowed."

Its success promoted a further round of explosive orders and in April 1989 it committed itself to a total of almost $17bn (£11bn) in options and firm orders.

As the market turned against GPA it suffered a significant deterioration in the credit quality of its lessees. Some defaulted, such as VASP, the Brazilian Airline, forcing GPA to repossess aircraft; others rescheduled lease rentals, and American West Airlines, filed for protection from its creditors under Chapter 11 of the US bankruptcy code.

Faced with $12bn of firm orders from aircraft manufacturers to the end of decade and more than $5bn of total debts the company decided at the beginning of 1992 to raise equity via a global flotation. The question was at what price should the shares be valued.

The fate of GPA was determined largely by its inability to raise that equity, which it has tried to do on many occasions over the past year.

Had GPA put a lower valuation on its stock during these attempts they might just have succeeded.

The problem was not that GPA ever refused to accept that its shares were worth less than it had hoped. It was more that each time the company was ready to price its shares more competitively, investors took the view that they were worth even less – a suicidal game of beggar my neighbour.

After a public row with advisers, Mr Ryan agreed to sell the shares at $20 each, instead of the $30 he believed they were worth.

But the issue was pulled at the last minute on June 18 because of lack of support from institutions. Some of the biggest, including Alliance Capital, which manages about $60bn of pension and mutual fund assets in the US, complained that the shares were significantly overpriced.

GPA did not give up, it simply changed its strategy and opted for something less complex than a global issue.

A few weeks after it was forced to abort its flotation, Nomura, the group's main adviser, approached a number of outside investors in an attempt to place up to $500m of new shares. Discussions centred on the shares being offered for sale at about $12.

But by then the market took the view that the value of the shares had fallen further, in line with the decline in the value of aircraft and the deterioration of the credit quality of GPA's lessees.

In September the company appeared to have accepted this when it asked some of its biggest shareholders to support a $350m preference share issue with a conversion price of $8.

Yet by now the ordinary shares were being quoted on the Dublin grey market at between $6 and $8.

The issue was shelved as the group was forced to begin negotiations with banks on its borrowing arrangements.

Earlier this year the company went back to its shareholders for the last time, offering them new shares at just $1. As one of its bankers said at the time: "This was the last throw of the dice".

If investors declined to take up their rights in the new preference share issue they would be saying something about the perceived price of the shares that the banks did not want to hear.

By writing down the value of their shares to less than $1 many shareholders confirmed the banks' worst fears.

Mr David Kingston, chief executive of Irish Life, said GPA was probably the worst investment ever undertaken by the company.

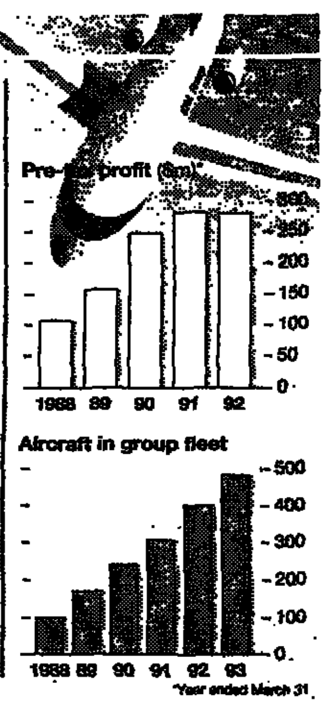
That view was echoed by many other shareholders, who have declared that they have no intention of reinvesting at any price.

GPA Group: up, up and away...

Tony Ryan
Chairman and founder

Maurice Foley
Deputy Chairman

1975	GPA Group founded by Tony Ryan, a former middle manager with Aer Lingus, with $50,000 of capital. The company acts as broker, hiring out one airline's surplus jets to other operators short of aircraft
1976	Operates first aircraft, a Boeing 737 for Nigerian Airways
1979	GPA buys its first aircraft
1984	GPA buys its first new aircraft
Mid 1980s	The company starts to speculate in aircraft "futures", paying for new aircraft delivery slots from manufacturers with no firm customer orders
1987	$100 million rights issue
1989	(April) GPA orders 308 aircraft worth $16.8 bn - the largest ever single batch of aircraft orders
1992	(June) $800m global flotation at $10-12 a share withdrawn
1992	(Nov) shelved $350m convertible preference share offer
1993	(March) fails to sell new equity at $1 a share



Protection available under Irish procedures

By Andrew Jack

IF GPA fails to strike a deal soon with its creditors, it is likely to turn to the Irish courts for protection while it works out a financial restructuring.

By asking the courts to appoint an examiner, the GPA board could remain in control of the company during the negotiations. As such, the Irish system is much closer to Chapter 11 insolvency procedures in the US than administration in the UK.

Examination was brought to the statute books three years ago in an emergency all-night session of the Irish parliament. It was designed to provide a last-minute insolvency option to prevent Mr Larry Goodman's beef empire passing into receivership.

Typically the directors request the courts to approve the appointment of an examiner. It is believed GPA has already lined up a candidate. Creditors can also request an examiner to be brought in.

If creditors instead attempt to appoint a receiver, the directors may lodge an appeal with the courts to have the receiver removed and an examiner appointed.

The examiner has wide powers including the right to apply to the court to have directors removed from office. He or she receives a statement of affairs of the company from the directors, and has up to 21 days to make a report to the court. This will cover its financial position, the reasons for insolvency, and a summary and assessment of any restructuring proposals.

During that period, the company may seek new loans from banks, which become preferential creditors.

More recently since the introduction of the procedure, the Irish courts have been granting interim examination orders lasting seven days.

If a judge allows the process to continue, the examiner has a further three months to make proposals to a creditors' committee. Any decision taken must be ratified by the court.

Lessor with the biggest reach may have its wings clipped

By Richard Gourlay

AS GPA enters a critical week, it can be no comfort that the vultures are already picking over its back yard.

Aer Lingus, Ireland's national carrier and the airline that helped Tony Ryan launch GPA 18 years ago, has just taken delivery of its latest Boeing 737-500 – leased long term from GPA's biggest competitor, California-based International Lease Finance Corp.

While GPA has been fighting to prevent the collapse of its finances, ILFC, which is backed by the American International Group, has been going from strength to strength.

GPA has also been growing the number of leases, although the creditworthiness of some of its operators has deteriorated.

Last year it leased 208 aircraft worth more than $4bn (£2.5bn) and has taken a dominant position in rapidly expanding markets such as China.

It would be a strange financial restructuring that did not, however, clip GPA's wings and its ability to fund the business.

So what would the airline industry miss if GPA was forced to shrink and who would fill the gap?

GPA is probably the largest distributor of aircraft after Boeing. It prides itself on marrying financiers and manufacturers with airline operators. The company has not always leased to the strongest customers and last year, in particular, it faced a debilitating level of early-terminating leases after the Gulf war.

But GPA still has the greatest reach among airline leasing companies. In spite of the rise of ILFC, GPA still leases twice as many aircraft around the world as its rival.

GPA's size has also provided manufacturers and airline operators with a flexibility they have cherished since the mid 1980s.

Lessors have offered aircraft manufacturers more secure order books by enabling the airlines to keep the aircraft off the balance sheet.

Airlines have also been able to take aircraft for considerably shorter periods than the lifetime of the aircraft.

This flexibility is likely to be even more valuable in the next 20 years.

With the latest generation of aircraft designed to last for 30 years, leasing is forecast to be an increasingly popular form of aircraft finance.

Unfortunately, in providing this flexibility, GPA has taken much of the operational risk on to its own shoulders which, lacking financial muscle, have proved inadequate for the task.

If GPA were to go into examination, the Irish equivalent of Chapter 11, there would be a rush of perhaps better financed pretenders to fill the hole.

"There is still very attractive core financing to be done on aircraft," says Sir Michael Bishop, head of British Midland Airlines. "Residual values of the leases should increase in the next few years as supply becomes tighter."

There is also one other consideration. As an intermediary – or marriage broker – GPA's main assets are its experienced staff. Without implying any disrespect to Mr Ryan's West of Ireland base, if the GPA team is prepared to work out of Shannon it could work out anywhere – and for anyone.

Banks count their debt exposure

By Robert Peston and Roland Rudd

THE FRONTLINE casualties in GPA's fall from grace are its shareholders, whose shares are worth less than $1.

Many investors have written off their entire stake in the company. Any debt-for-equity swap in a financial restructuring will replace them as shareholders.

The biggest current shareholder is Mitsubishi Trust and Banking, the Japanese bank which owns 12 per cent of the ordinary shares.

Other big shareholders are Air Canada, with 10 per cent, and Mr Tony Ryan, GPA's founder, who owns 100 per cent of a special class of shares and 8 per cent of the ordinary shares. Some of these are pledged as collateral for a $35m (£22.7m) personal loan from Merrill Lynch International Bank, the European arm of the biggest US securities firm.

The next most important shareholders are Irish Life and Aer Lingus, which have about 10 per cent between them.

Citicorp, the biggest US bank, paid $78.8m at the peak share price of about $34 for its shareholding. Citicorp also has substantial debt exposure to GPA, although it recently said its loans to GPA are "less than $250m".

Nomura International, GPA's global co-ordinator during its ill-fated attempt to raise equity via a public flotation, bought 1.36m shares at an average of $20 a share.

The run-up to the flotation was a public relations disaster for GPA, and some of the group's executives blame its advisers.

GPA was also irritated that Nomura was only able to meet one of its three commitments made when it won its mandate in 1991 as the group's lead adviser.

It provided liquidity for existing shareholders by buying 1m of their shares and later bought out shareholders who refused to agree to a lock-up before the flotation was due to go ahead. But it failed to raise $250m through a convertible redeemable preference share issue and did not underwrite any of the share issue. GPA believed Nomura had given it an undertaking to underwrite $500m, although this was disputed by Nomura.

A total of 138 banks provided loans to GPA. Those with substantial exposure are Mitsubishi Trust and Banking, which said it had provided a credit line of $191m. Its Japanese rival, Sakura, provided credit estimated at more than $110m.

Toronto Dominion Bank of Canada is also understood to have substantial exposure, as has Swiss Bank Corporation, with loans of more than $100m.

UK banks with the biggest exposure are National Westminster, with about $70m and Barclays, with less than $50m.

In total, North American banks have provided more than a third of GPA's bank debt, the contribution of European banks is about 30 per cent and slightly less has been provided by the Japanese.

GPA estimates its total indebtedness at some $5.5bn, consisting of $3.5bn in bank debt and $2bn in bonds and other forms of publicly traded debt.

However, according to one lender, 20 per cent of bank debt is off balance sheet. So banks' total exposure to GPA is more than $4bn.

Assessing the likely losses on this is difficult. Almost all of this debt is fully secured on GPA's fleet of more than 300 aircraft. About 90 per cent of this fleet consists of stage three or modern aircraft, whose value has held up relatively well during the recession in the aircraft industry. The weighted average age of the group's fleet is 3.8 years.

Mr Jack Hersch, director of research at MJ Whitman, an investment firm specialising in trading bank debt, estimates that bank loans to GPA are worth 66 cents for every dollar lent. That would imply losses for banks of substantially more then $1bn. Some banks say, however, the losses should be less. On the other hand, the bonds have recently been trading at between 15 and 20 per cent of their face value.

For aircraft manufacturers the picture is also bleak. GPA had placed orders with them to purchase $11.9bn of aircraft before the end of 2000 and had options covering the purchase of a further $9.1bn of aircraft. However, it had recently reduced its firm orders by more than $7bn, subject to agreement being reached with banks on a financial reconstruction.

Manoeuvring and intrigue in battle for control

The board's loyalty to founder Tony Ryan quashed the middle managers' coup attempt, **Roland Rudd** reports

SOME OF GPA Group's executives have likened the political infighting going on at their Shannon headquarters in the Irish republic to a Shakespearean drama.

"There has been so much manoeuvring and intrigue at the top," said one of the group's advisers, "that I am sometimes surprised that the executives have any time for the restructuring at all."

The wrangling came to a head recently when the middle management launched a putsch to have Mr Tony Ryan, the group's founder, replaced as chairman by Mr Gerald Greenwald, a non-executive director and key figure in rescues as diverse as Chrysler and Olympia & York.

The coup failed when the board rallied behind Mr Ryan. But the fight over GPA's top job is by no means over.

Some of the group's biggest lenders have been concerned for several months that a gulf has developed between middle management, effectively running the operations, and senior directors, involved in the restructuring, which to date has failed to meet most of its objectives.

Angry about the lack of progress on the restructuring, two key middle managers, Mr Patrick Blaney and Mr Phil Bolger, wrote to the board asking for Mr Ryan to be replaced by Mr Greenwald.

However, the rest of the non-executive directors, who include Sir John Harvey-Jones, the former chairman of Imperial Chemical Industries, Lord Lawson, the former UK chancellor, and Mr Garret FitzGerald, the former Irish Prime Minister, gave their unequivocal support to Mr Ryan.

Three of the non-executives were already on record as citing Mr Ryan as the main reason why they joined the board and they were not about to let him down when he needed help.

As one of the non-executives put it: "We are all very close to Mr Ryan, who has been doing a splendid job in very difficult circumstances. We did not entertain the thought of replacing him: there will be no more management changes."

In the event, Mr Blaney was promoted to the board as chief operating office in charge of the restructuring, named Project Rebound.

Other members of middle management had already moved into key positions.

These include Mr Bolger, who is in charge of leasing, Mr Mike Dolan, responsible for the negotiations with bondholders as managing director of GPA Capital and Mr Steve Johnson, who is the company's general council.

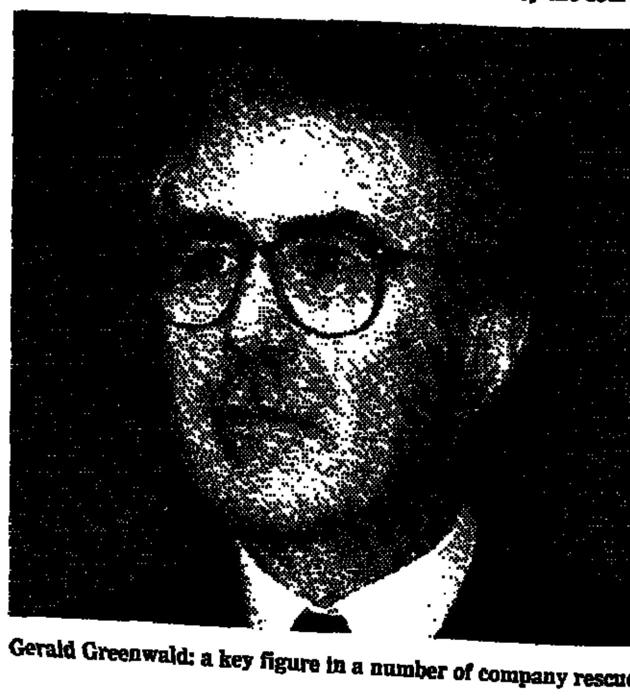
According to one banker the four "young turks" no longer have confidence in Mr Ryan's leadership. He believes they will resume their battle for control of the company if the bondholders swap part or all of their debt for equity: this would have the effect of diluting Mr Ryan's 8 per cent stake to nothing.

But it would be a mistake to write-off Mr Ryan. If he pulls off a deal with GE Capital his position as chairman will be strengthened.

Mr Gary Wendt, chief executive of GE Capital, has assured Mr Ryan of his continued support should the financial services arm of General Electric take up a stake in GPA.

Nor is Mr Ryan adverse to making sudden board changes to strengthen his hand. Last September he surprised some of his directors when he abruptly took over as chief executive from Mr Maurice Foley.

There has been speculation that Mr Ryan may be willing to accept an honorary post such as life president. But Ireland's best known entrepreneur is unlikely to go in the immediate future unless he is pushed.



Gerald Greenwald: a key figure in a number of company rescues

Chargeurs warns of losses at its industrial operations

By Alice Rawsthorn in Paris

CHARGEURS, the French textile and media group, yesterday warned that its industrial activities would make a loss in the first half of this year because of the cost of a rationalisation package involving 1,000 job losses.

The group, which is a prominent player in the international wool textile industry and a significant shareholder in BSkyB, the UK satellite television service, plans to close a wool processing plant in Argentina and to reduce its manufacturing capacity in France.

Mr Jérôme Seydoux, chairman, said the job losses, which would reduce Chargeurs' workforce by more than 10 per cent, would aggravate the problems of the industrial division during the first half, but should contribute towards an improved performance in the second half.

The media division is expected to produce similar results to last year when the group as a whole saw net profits almost double to FFr724m ($134m), after a FFr410m surplus on the sale of its stake in the UTA airline to Air France, from FFr366m in 1991.

Chargeurs' sales fell by 16 per cent in the first quarter and by 12 per cent last month.

The group's wool textile interests have been hit by the gloomy economic climate and its transport activities by the weakness of the European car market.

However, Chargeurs is pressing ahead with the expansion of its media activities by acquiring a 12 per cent stake in Tobis, the largest independent film distributor in Germany. Chargeurs, which has film distribution interests in the UK and France, is keen to expand in this area in Switzerland, Holland and Belgium, according to Mr Seydoux.

Simon deficit breaks bank deal

By Angus Foster in London

SIMON Engineering, overshadowed by bad news for more than a year, yesterday announced it will make a first-half loss in the six months to June 30, thereby breaching one of its banking covenants.

The company confirmed the loss would breach a covenant on its US private placement borrowings which states that interest cover should be two times or greater.

Simon's banks were being closely informed and were "fully supportive".

No other covenants were in danger of being breached, the company said.

Sir Philip Foreman, who took over as interim chairman last month following the death of Mr Roy Roberts, told Simon's annual meeting yesterday that the company's paper engineering and petroleum technology businesses had seen trading "deteriorate materially".

He said Simon, which has reported profits falls since 1990, would make a first-half operating loss. SG Warburg, the company's broker, changed its full-year forecast from a £12m ($18.48m) profit to a £2m loss. Warburg forecast Simon would not pay a dividend.

The dividend was sharply cut last year to 5p from 15.7p.

Sir Philip said Simon's borrowings have continued to increase, in spite of about £30m of proceeds from disposals. Gearing is thought to have gone past 100 per cent and net borrowings are thought to be nearly £110m, against £101.2m at the year end.

The company's shares, which collapsed last year from 301p, yesterday fell 26½p, more than 25 per cent, to 73½p.

"The situation looks extremely serious," an analyst said.

Berlusconi to float publishing unit

By Haig Simonian in Milan

MR SILVIO Berlusconi, the Italian media magnate, is today expected to announce the flotation of the Silvio Berlusconi Editore publishing operation in an attempt to raise cash for his Fininvest holding company.

Precise terms of the deal remain unclear, amid some uncertainty as to whether Fininvest will float SBE independently, or as part of a more complex transaction involving its majority-owned Mondadori publishing operation, which is listed on the stock market.

The signs are the deal will take place through a reverse takeover of Mondadori by SBE, combined with a share swap for Mondadori shareholders into SBE. That will be followed by a placing of up to 49 per cent of SBE's stock. Terms of the transaction will be announced after an SBE board meeting and extraordinary shareholders' meeting today.

It marks a turnabout for Mr Berlusconi, who has not hidden his distaste for having outside investors.

However, the need to raise cash for Fininvest has increased as acquisition-led expansion has been halted and debts have mounted.

SBE publishes Italy's best-selling magazine, TV Sorrisi e Canzoni, and has recently launched Noi, a new mass-market weekly.

The company, which has substantial commercial printing activities, made net profits of L29.7bn ($19.5m) on sales of L320bn last year.

Mondadori is Italy's biggest publisher, with a range of book and magazine interests. Group sales rose by 13.9 per cent to L1,600bn last year, while net profits recovered to L57.1bn from L101bn in 1991.

UK retailer rises 16.7% as sales pass £10bn

By Paul Taylor in London

J. SAINSBURY, Britain's biggest retailer, yesterday reported a 16.7 per cent increase in full-year pre-tax profits.

The results of the group, whose sales exceeded £10bn ($15.4bn) for the first time, compare with the 6.5 per cent profit gain posted by its rival Tesco.

Sainsbury's pre-tax profits in the year to March 13 increased to £732.8m from £628m the previous year on sales that grew by 11.6 per cent to £10.27bn, including £584.2m of VAT and US sales taxes, compared with £9.2bn.

The profit improvement, which was at the low end of market expectations, was underpinned by a small increase in like-for-like sales volumes in the group's UK supermarkets and Savacentre hypermarkets, and by higher operating margins and a 0.7 percentage point gain in UK market share to 11.3 per cent.

Mr David Sainsbury, chairman, said the "extremely strong" results had been achieved in "very competitive market conditions".

He attributed the gains to the group's aggressive trading position and improved price competitiveness, enhanced quality and controlled costs.

In the UK, supermarket and Savacentre sales increased by 12.6 per cent to £8.9bn with 23 new stores contributing 8.8 percentage points of the gain – the largest contribution from new space for 10 years.

The foodstores' operating profits were 19.1 per cent higher at £752.2m. Sunday trading at 160 supermarkets was only marginally profitable.

The Homebase DIY store operations managed a 16.3 per cent increase in profits to £17.8m on sales which grew by 9.8 per cent to £282.8m.

Earnings per share were 28.47p against 25.69p. The final dividend of 7.3p per share makes a total of 10p against 8.75p. Sainsbury's stock closed down 14p at 467p.

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EC reforms hurt agrochemicals

Paul Abrahams looks at Schering's mooted deal with Hoechst

THIS week's announcement that Schering, the German bioscience group, is negotiating a possible merger of its agrochemicals business with Hoechst, the German chemicals giant, raised more than a few eyebrows.

It was the choice of partner rather than the merger itself that caused the surprise. A deal would create a new number two in the world agrochemicals league after Ciba of Switzerland: but the geographical synergies between the two companies is minimal.

Rationalisation is clearly necessary in this $27bn industry, involving fungicides pesticides and insecticides, though not fertilisers. The sector has been severely battered in recent years, enduring an unhappy combination of rising costs and falling demand.

Costs are on the increase because of rising development overheads – a direct consequence of increasing government demands for safer and more environmentally friendly products.

Demand is tumbling almost wholly because of the reforms last year of the European Community's Common Agricultural Policy that involved setting aside 15 per cent of farmers' land.

Estimates of the impact of the reforms vary. Allan Woodburn Associates, the Edinburgh-based agrochemical market research specialists, estimates that the EC market last year fell between 10 per cent and 12 per cent. Wood Mackenzie, the agrochemicals analysts, estimates that it dropped 13 per cent.

AGROCHEMICAL SALES

Company	$bn
Ciba-Geigy	2.94
Zeneca	1.99
Du Pont	1.96
Bayer	1.94
Rhone-Poulenc	1.93
Monsanto	1.65
Dow Elanco	1.58
Hoechst	1.39
BASF	1.19
American Cyanamid	1.00
Sandoz	0.88
Schering	0.82

Source: Wood Mackenzie

"About half the fall in west Europe was due to the reforms and about half due to the weather," says Mr Allan Woodburn. He expects the market to fall a further 8 per cent to 10 per cent over the next two to three years.

The US market is also struggling. BASF at one point cut the price of products for soyabeans by 30 per cent in America last year.

Monsanto has been cutting the prices of Roundup, its best-selling herbicide, after its US patents expired last year.

Zeneca, ICI's bioscience division, estimates the world market declined between 2 per cent and 3 per cent last year because of the reforms and price competition in the US.

"The agrochemicals market is clearly stagnating," admits Professor Klaus Pohle, Schering's chief financial officer and deputy chairman.

"The CAP reforms have really changed the conditions of life. The lower subsidies mean farmers are unwilling to increase purchases of agrochemicals. At the same time, demands for increasing environmental performance mean higher R&D costs. We have to adapt to a smaller market," says Professor Pohle.

Schering has been particularly hit by the EC reforms. The group has 60 per cent of its sales in the region, according to Mr Woodburn.

Sales fell 16 per cent last year.

During the first quarter of this year, its agrochemicals division's turnover collapsed 22 per cent, a fall that Professor Pohle partly attributed to changing buying patterns. The division is no longer offering discounts at the beginning of the year to encourage wholesalers to take early stock, and aims to cut staff by 20 per cent by 1994.

The impact of the reforms has been exacerbated by Schering's product mix. Cereal herbicides can be used on some set-aside land, but no fungicides, and it is this product area that had been hit harder than any other. Schering's strength is in cereal fungicides and sugar beat herbicides which have not been affected.

If it comes off, the merger between Schering and Hoechst would link the world's 12th and eighth largest agrochemicals businesses and put the new group ahead of the operations at Bayer of Germany and Zeneca, according to Mr Woodburn.

Last year, Schering's business had a turnover of about $820m; Hoechst agrochemicals sales were $1.29bn.

Rhône-Poulenc of France has already linked its agrochemicals business to that of Sumitomo, while Shell and American Cyanamid are understood to be negotiating a potential combined venture.

Schering almost merged its business with that of Sandoz until the Swiss company also mooted a merger of its pharmaceuticals operations.

However, although there is some synergy between the products of Hoechst and Schering – the former is strong in cereal herbicides and insecticides and has only limited exposure to fungicides – the geographical arguments for a link are not overwhelming.

Both are strong in the European market. Mr Woodburn estimates 48.5 per cent of the new combined group would be in west Europe, 16.5 per cent in North America, 13 per cent in Latin America, 12 per cent in eastern Asia, and 10 per cent elsewhere.

"This deal will do almost nothing to reduce the two companies dependence on the rapidly weakening European market," says Mr John McDougall at Wood Mackenzie.

Aegon improves 20% to Fl 230m in first quarter

By Ronald van de Krol in Amsterdam

AEGON, the Netherlands' second-largest insurance group, said first-quarter net profit rose by nearly 20 per cent to Fl 230m ($128m) on turnover up 11.4 per cent at Fl 4.93bn.

The company, which described the results as a "promising" start to the year, said the first-quarter performance confirmed its optimism about 1993, adding that it stood by earlier predictions that full-year operating profit would show a slight increase over 1992.

Operating profit after tax in the first quarter rose by 6.7 per cent to Fl 200.3m. Aegon's realised profits on investments showed an even stronger rise to Fl 29.6m from Fl 5.3m the year before. The company noted that investment results tended to fluctuate from quarter to quarter.

Life insurance, Aegon's single largest business, posted a 17.8 per cent increase to Fl 205m.

Profits at Italian energy group plunge to L126bn

By Haig Simonian

AGIP, the Italian upstream oil and gas group controlled by the Eni state holding company, suffered a steep fall in profits to L126bn ($82.6m) last year from L1,188bn in 1991.

The drop at the company, due to be partially privatised by the end of this year, will come as a blow to plans to float Agip's shares and reflects the heavy additional burden of Agip's stake in the loss-making EniChem chemicals operation.

Agip gave no indication of how deeply it had been affected by EniChem's losses, which more than doubled to L1,560bn last year. Agip owns 49.6 per cent of Sci, a holding company owned with other Eni group operations, which in turn controls almost 60 per cent of EniChem.

Among other factors accounting for its profits fall were higher interest charges and exchange rate factors. Overall, Agip had to set aside L2,622bn in amortisation and L933bn for taxation.

Continental places $4.5bn order with Boeing

By Nikki Tait in New York

CONTINENTAL Airlines, the fifth-largest US carrier which recently emerged from Chapter 11 bankruptcy protection, is placing a $4.5bn order with Boeing to update and simplify its fleet. The order could be worth more than $600m to the UK's Rolls-Royce, which will supply some of the engines for the aircraft.

In total, the Continental deal covers firm orders for 92 aircraft, to be delivered between January 1994 and the year 2005, with options for another 98.

However, a portion of the purchase agreement – for 50 Boeing 737s and 25 Boeing 757s – essentially reinstates an order placed by Continental before it went into Chapter 11, and which was then cancelled by the carrier while it was in bankruptcy.

The new element is Continental's decision to acquire 12 wide-body 767-300ER aircraft, with options for another 18, and five of the new 777s, with options for a further five.

The Continental 777s will be the longer-range B model of that aircraft.

Continental also announced for the first time that the new fleet of twinjet 757s will be powered by Rolls-Royce engines.

In addition to the 25 firm orders for this aircraft, it has options on a further 25, and Rolls-Royce said the potential value of the order could exceed $600m.

The first delivery date for the 757s is May 1994, and the final deliveries would be made in March 1997. Delivery dates for the optioned aircraft begin in 1995 and continue through to 1998.

The first 777s, meanwhile, are due to be delivered in August 1997, and the final delivery date on the firm order aircraft is April 1998. Continental said the airliner, carrying GE engines, would be used to replace 747s on longer-haul international routes.

The firm-order 767s are due to be delivered between 1995 and 1999, and will also appear in Continental's fleet for the first time.

The most numerous part of the order is for the 50 737s, with engines made by CFM International, a joint venture between General Electric in the US and France's Snecma, with options of another 50. The firm orders will be delivered between January 1994 and July 1997.

The US airline said the overall size of its fleet – currently about 325 aircraft – should not change substantially over the next three years.

However, by end-1997, about 86 per cent of its aircraft should meet the new "stage III" noise requirements, compared with only 51 per cent at present.

Along with Trans World Airlines, Continental has one of the oldest fleets in the US airline sector.

First-term improvement at Turner TV group

By Jeremy Bennallack-Hart in New York

TURNER Broadcasting System, the Atlanta-based cable television group controlled by Mr Ted Turner, yesterday reported higher revenue and income for the first quarter.

Net income totalled $20.14m, against $731,000, although the 1992 figure reflected costs associated with Winter Olympics coverage.

The income figure for the latest period was struck before a charge of $286m following the adoption of the FAS 109 accounting standard on income tax.

Revenue rose 9 per cent to $398.4m.

Mr Turner said: "The overall tone of the advertising market has been healthier."

Operating profits for the entertainment division, which includes TBS SuperStation and Turner Network Television, rose to $46.5m from a depressed $16.1m.

Revenue advanced 11 per cent to $189m, due to increased subscription and advertising revenue.

In the news division, which includes CNN, operating profits rose 23 per cent to $52.15m on revenue 15 per cent higher at $144.2m.

The syndication and licensing division suffered an operating loss of $5.95m, against a $2.74m profit, due to a shift in the revenue mix from higher to lower margin businesses. Revenue fell 8 per cent to $50.33m.

Losses in the sports division rose from $3.98m to $4.87m, on revenue of $1.17m, against $1.14m.

On Wall Street, Turner shares were down $⅛ to $20 before the close.

Further loss at Trustco ahead of takeover

By Bernard Simon in Toronto

ROYAL Trustco, the Canadian financial services group controlled by Toronto's Bronfman family, has recorded another large loss as it limps towards a takeover by Royal Bank of Canada.

The first-quarter loss was C$75m (US$58.8m), or 57 cents a share, against earnings of C$24m, or 6 cents, a year earlier. RT posted losses of C$852m in 1992.

Investment income dropped 30 per cent, to C$474m. RT said falling deposits and the repayment of borrowings curtailed lending and investment activity. Margins were squeezed by higher non-performing loans, a smaller equity base and a lower yield on its securities portfolio. Loan loss provisions jumped to C$61m from C$21m.

RT is negotiating the details of the C$1.6bn sale of its operations to Royal Bank.

Under the deal, RT will be left with a portfolio of mostly real-estate loans with a book value of C$4.3bn and is likely to change its name. Its assets stood at C$22.5bn on March 31.

Royal Bank, Canada's biggest financial institution, will gain 146 branches in Canada, as well as 15 overseas units.

Mr Allan Taylor, RBC's chairman, said recently the acquisition would enable the bank to "expand quickly in four profitable high-growth markets where our own presence is relatively small".

The acquisition will raise the proportion of consumer deposits in RBC's total funding from 61 per cent to 68 per cent, against an average of 48 per cent for other Canadian banks.

● Brascan, a key Bronfman holding company, lifted first-quarter income to C$136.7m, or C$1.49, from C$7.3m, or 2 cents, due to a C$210m gain from the sale of its 47 per cent interest in John Labatt, the brewing and entertainment group. Improved operating results from London Life, an insurance group, were offset by RT's loss. Natural resource earnings were down due to the loss incurred by Noranda on the sale of its stake in MacMillan Bloedel, the forestry company.

Cascades to sell eight boxboard plants

By Robert Gibbens in Montreal

CASCADES, the international packaging and fine paper group, has put eight North American boxboard plants, valued at C$300m (US$235m), up for sale.

The cigarette packaging and converting plants, which employ 1,250, were part of Cascades' acquisition of Paperboard Industries in 1992.

Paperboard, which is 63 per cent owned by Cascades, now includes all the Cascades group's European and North American boxboard interests. It went public last year.

Mr Laurent Lemaire, Cascades chairman, said the eight plants, some of which are unable to use recycled material, did not fit into the company's long-term strategy.

There were five or six potential bidders for the plants, he added.

Cascades Paperboard recorded a loss of C$5.1m, or 13 cents a share, in the quarter to March, against a profit of C$443,000, or 2 cents.

Mr Lemaire said that Paperboard sales and profits should improve later this year, though the North American and European markets remained generally depressed.

A boxboard plant in Duffel, Belgium, will be closed temporarily and converted to use recycled materials.

● Air Canada is raising US$190m by selling five Airbus 320 aircraft to a group of international banks in a long-term leasing deal.

Recovery at Woolworth stalls

By Nikki Tait

RECOVERY at Woolworth, the US retail group, stalled in the first quarter of the current financial year, when the company recorded earnings of just $1m after tax on sales of $2.13bn.

In the same three months last year, Woolworth reported a $17m after-tax profit, on sales slightly lower at $2.09bn.

Woolworth – which takes in several specialty chains, such as Foot Locker, as well as the namesake stores in the US – said operating profits in the three months to May 1 reached $26m, compared with $59m in the same period a year ago.

The first-quarter profit translates into earnings per share of 1 cent, down from 13 cents in the first quarter of 1992. On Wall Street, Woolworth shares fell $¾ to $28⅞ – close to the 52-week low – before the close.

Within the group total, Woolworth said that its foreign operations, which range from Australia to the Netherlands, had slumped to an $18m operating loss, compared with a $2m profit a year earlier.

Domestic operating profits were down from $57m to $44m.

Mr Harold Sells, chairman, admitted the results were "disappointing", and blamed "weak economic conditions and low consumer confidence in the principal markets in which we do business".

However, he suggested that the group's major store redeployment programme should still help in the longer term.

Federated lifts first-quarter profit to $18m

By Nikki Tait

FEDERATED Department Stores, one of the largest department store operators in the US, and taking in chains such as Bloomingdale's and Jordan Marsh, yesterday unveiled an after-tax profit of $18.2m for the 13 weeks to May 1, on sales of $1.59bn.

The results compared with profits of $11.8m and sales of $1.57bn in the first quarter of 1992. Operating profit, year-on-year, rose from $80.3m to $82.9m. The after-tax figure in the current year was struck after a $3.54m extraordinary item related to early debt repayment.

Mr Allen Questrom, chairman, described the first quarter as "moderately good" and in line with expectations. He noted the weather had not been generally helpful, and consumers appeared to have lingering doubts about the economy.

Varta may cut dividend as sales slip 9%

By Ariane Genillard in Bonn

VARTA, the German battery maker partially controlled by the Quandt family, said first-quarter sales had fallen by 9 per cent to DM528m ($328m).

The company warned it was considering lowering its 1993 dividend. The 1992 payout was an unchanged at DM10.

Profits for the year to December 31, 1992 fell to DM50m, from DM52m the previous year on sales up by 9 per cent to DM2.4bn, reflecting the merger of the automotive battery activities of Varta and Bosch, the German engineering group. First-quarter sales in Germany decreased by 7 per cent and abroad by 10 per cent.

The sharpest fall in first quarter sales was recorded in industrial batteries with a 21 per cent decline. Sales of automotive batteries fell by 11 per cent.

Wal-Mart eases growth worries

By Nikki Tait

WAL-MART Stores, the expansion-minded US discount store group and the nation's top-selling retailer, yesterday eased some of the concerns over its growth prospects, with a 16 per cent improvement in first-quarter profits.

It said it was "on track" to meet sales and earnings targets for the rest of the year.

Wal-Mart's after-tax profits in the quarter to end-April totalled $450.6m, up 16 per cent on the $387m in the same period of 1993. Sales rose to $13.9bn, a 19 per cent improvement over the $11.6bn in 1992.

At the per share level, earnings increased to 20 cents from 17 cents.

Wal-Mart shares rose $1⅜ to $27⅞ before the close. They have been trading close to 52-week lows, as Wall Street has questioned whether Wal-Mart's growth rate would slow. There have also been doubts over the potential for the US "warehouse club" sector – high-volume, deep-discount outlets. Wal-Mart, with 277 Sam's Clubs stores, is one of the biggest "warehouse" operators.

Novo Nordisk declines

By Hilary Barnes in Copenhagen

NOVO NORDISK, Denmark's leading biotechnology company, reported first-quarter pre-tax profits down by 14 per cent to DKr405m ($65m) from DKr470m.

The group, whose leading products are insulin and other healthcare products and industrial enzymes, pointed out that it had an exceptionally good first quarter last year.

Group sales were ahead by 3 per cent to DKr2.75bn from DKr2.66bn last year. The increase was achieved despite the fact that appreciation of the krone reduced the average value of invoicing currencies by about 3 per cent, said Novo.

Net profits fell 6 per cent to DKr304m from DKr324m, and earnings per share to DKr8.11 from DKr8.74.

Healthcare sales rose 6 per cent to DKr1.83bn, while sales by the bio-industrial division were down by DKr5m to DKr814m.

Cypress sells offshoot

By Louise Kehoe in San Francisco

CYPRESS Semiconductor, a Silicon Valley semiconductor manufacturer, to sell its microprocessor subsidiary, Ross Technology, to Fujitsu of Japan for about $23m.

Ross is a producer of Sparc microprocessors, designed by Sun Microsystems. Sun, the largest user of Sparc chips, recently chose a different version of the microprocessor, produced by Texas Instruments, for its latest workstation and server computers. Ross recorded a pre-tax loss of $3m in the first quarter.

Cypress said the sale was a better alternative than closing or contracting the Ross unit.

The acquisition ensures Fujitsu continued supplies of Ross' Sparc chips to ICL, and other parts of its computer operations. Fujitsu will also gain Ross' microprocessor design capabilities. The sale is subject to US government approval.

Pentagon warns on C-17 project

A TOP Pentagon official has warned McDonnell Douglas that unless it improved development of the C-17 transport aircraft, the project would be cancelled, writes Martin Dickson. The company had been hoping for a 120-aircraft order. Mr John Deutch, under-secretary of defence for acquisition, told the company that "unless there is strong resolve . . . to meet contract requirements . . . the C-17 cannot be continued."

مكرر من الأصل

In a Lexus, before the gearbox does anything, it lets the engine know. No wonder everything *goes so smoothly.*

As you pull away in a Lexus LS400, you'll notice how very smooth your progress is. You'll not notice any of the lurches or hesitations you'd find in other automatics. But how is this achieved? Lexus' designers pioneered ECTi which, in full, means Electronically Controlled Transmission with intelligence. The intelligent part is an advanced computer which informs the Lexus transmission of your speed, when to change gear and how much power to transfer to the road. A split-second before the transmission shifts, the computer sends a message to another processor in the engine. The 4.0 litre V8 then momentarily reduces power output, and as a result, the gear shift is virtually imperceptible.

With smoothness again in mind, Lexus engineers developed a revolutionary drivetrain designed to minimise vibration. It's in one straight line from the engine crankshaft through to the two-piece driveshaft. Now that you're cruising along smoothly, feel how comfortable the seat is. Six independent motors inside the seat mean it can be adjusted to accommodate almost any physique. It can even remember your favourite driving position – and that of your spouse – at the touch of a button.

Now look around you. You'll notice the Californian walnut trim, and the softly illuminated instruments. Next, imagine you're driving past a farm yard. Take a breath. Not a thing, because you specified an odour extractor for the air conditioning. And listen. Peace and tranquillity. Because of Lexus engineers' fanatical resolve to eliminate noise, the LS400 is near-silent. (That is, until you turn on the Lexus' seven-speaker sound system.) Visit your nearest Lexus dealer and experience the LS400. We'd be delighted to let you know about the world's smoothest – and most original – luxury car.

LEXUS

THE LUXURY DIVISION OF TOYOTA

INTERNATIONAL COMPANIES AND FINANCE

Charles Leadbeater, Michiyo Nakamoto and Robert Thomson expect a batch of disappointing results from Japan

Sega bucks trend with an advance of 64%

SEGA Enterprises, the amusement centre machines and video games manufacturer, bucked the expected trend of the Japanese corporate results season yesterday by reporting a 64 per cent increase in profits.

Sega said pre-tax profits in the year to March were up to Y55bn ($494m) from Y33.4bn after revenues rose 63 per cent from Y213.3bn to Y346.9bn.

Sega, whose video games are popular internationally, notably its games hero Sonic the Hedgehog, is expected to provide one of the brighter spots in the Japanese results season as most industries suffered a sharp downturn.

Sega has been extremely effective in competing with its main rival, Nintendo, in the US and Europe, where it has increased its market share to about 40 per cent, according to industry analysts.

Sega saw a 91 per cent rise in export revenues to Y210.9bn, compared with a 23 per cent fall in domestic sales to Y19.3bn in its consumer products division.

Sega is forecasting revenues of Y400bn and pre-tax profits of Y63.3bn for the current fiscal year.

Pre-tax profits ease at Daiwa

DAIWA HOUSE Industry, a leading builder of steel-framed homes, said sales for the year to March rose 5 per cent to Y926m ($8.3m), in tandem with a rise in housing starts, in spite of waning land prices, writes Wayne Aponte in Tokyo.

But the Osaka-based company said pre-tax profits eased 3.8 per cent for the first time in 13 years. Declining interest rates led to a fall of more than Y9bn in financial revenue.

Gloom is Tokyo's corporate rule

Michiyo Nakamoto reports that some upturn is expected this year

JAPANESE corporate culture regards conformity as a virtue. It is a virtue that will be in ample abundance over the next few weeks when the majority of Japanese companies announce dismal results for the year to March.

Manufacturers, service companies and financial institutions are expected to report reduced profits for the third year running.

Brokers have forecast that companies listed on the first section of the Tokyo stock exchange will report profit falls of 20 to 30 per cent.

The reason is the weakness of business and consumer confidence between April 1992 and March this year.

Despite an emergency government spending package of Y10,700bn ($96bn), announced in August, business confidence worsened throughout the year. The Bank of Japan's diffusion index, which measures short-term economic prospects, fell from minus 5 in February 1992 to minus 49 by February this year in the manufacturing sector and from a positive indication to minus 33 in the non-manufacturing sector.

The dramatically-altered business environment forced companies to adjust their strategies. As a result, the fall in profits in fiscal 1992 will reflect not only the effects of lower demand but restructuring charges as companies positioned themselves for recovery.

Consumer confidence declined not only because of the sagging economy but also because of indications that the system of lifetime employment, long taken for granted, is no longer sacred.

Personal consumption actually rose 0.8 per cent in fiscal 1992, according to estimates by BZW, the securities company. But this is a low figure for Japan, where growth in consumption had been running at 3 to 4 per cent in previous years.

A seemingly insatiable thirst for material goods in the years of asset inflation in the late 1980s has been replaced by a mood of frugality.

Motor manufacturers suffered a sudden halt to demand for luxury cars, just as they had invested in new plants and state-of-the art automation to meet expected strong demand.

Electronics manufacturers discovered that minor redesign of existing products no longer lured consumers into replacing TV or audio sets.

Meanwhile, the fall in business confidence led to a sharp drop in capital spending, notably by financial institutions.

BZW estimates that capital expenditure in fiscal 1992 was down by 5.7 per cent, in contrast to high growth in capital investment in the so-called "bubble" years, when companies competed to invest in new manufacturing and communications equipment.

The decline in capital expenditure was reflected in a fall in machine tool orders in 1992 of 35 per cent, according to the Japan Machine Tool Builders Association. Computer manufacturers, telecommunications and office equipment manufacturers were all affected by the drop in capital spending.

The slowdown of the Japanese economy means companies that are not competitive overseas and are dependent on domestic demand will be hard hit, says Ms Kathy Matsui, strategist at BZW.

Another feature will be the negative effects of restructuring and cost-cutting measures by Japanese companies.

Many managers conclude they have more employees, notably white collar, than they need or can afford.

A recent government survey found that 80 per cent of major companies in and around Tokyo set about restructuring to cope with the recession.

Companies ranging from NKK, the steel manufacturer, to Japan Airlines and IBM Japan, have introduced voluntary early retirement programmes to encourage staff to look for a second career. Such measures are being supplemented by transfer of staff to subsidiaries and sometimes to unaffiliated companies.

The extent of the restructuring is reflected in the number of industrial sectors applying for government employment adjustment subsidies. These can be used by companies to pay staff while production is halted or while they are on temporary secondment.

But the recent strength of the stock market, up 26 per cent since January, will bring windfall profit gains or, at least, lower valuation losses on corporations' stock holdings.

Yet, despite difficult times, it is unlikely many companies will reduce dividends to reflect lower profits. They are desperate to avoid this because it would undermine their ability to tap the equity market for funds, Ms Matsui says.

The consensus is the outlook for this fiscal year is better, but not dramatically so.

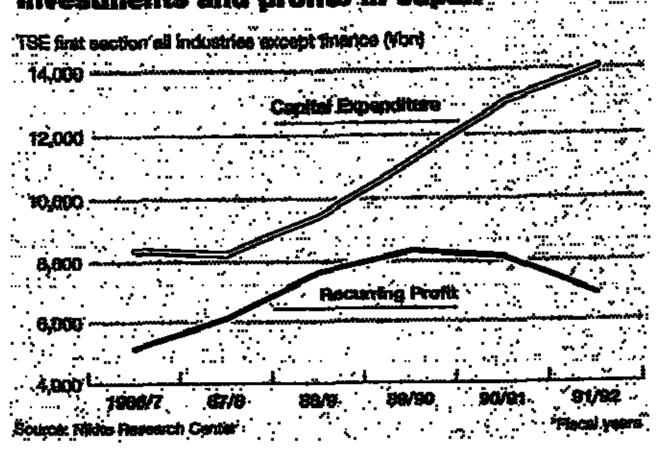
There is a growing optimism about recovery towards the end of this year. But opinion is divided on the extent of it and how soon it is likely to be reflected in corporate earnings.

Estimates for the recovery in earnings of non-financial companies listed on the first section of the Tokyo stock exchange range from a moderate 5 per cent increase, from BZW, to a more upbeat 14 per cent, from Salomon Brothers.

The impact of the yen's appreciation against the dollar is also of concern, although here opinion is again divided. The only certainty seems to be that, while more pain in adjusting to the new reality is on the horizon, fiscal 1993 cannot be worse than 1992.

Investments and profits in Japan

TSE first section all industries except finance (Ybn)



Source: Nikko Research Center

ELECTRONICS

Sector faces humbling time

JAPAN'S large integrated electronics companies and consumer electronics manufacturers are preparing to humble themselves before their shareholders again as they report disappointing results for fiscal 1992.

Matsushita, the world's largest consumer electronics manufacturer, saw the sudden departure of its president in the wake of poor performance, and scandal caused by a financial subsidiary and by its own defective refrigerators.

NEC expects to report a Y40bn ($359m) pre-tax loss, while Fujitsu is likely to announce a Y20bn deficit, its first loss since it was listed on the Tokyo stock exchange.

The immediate outlook for most companies in the sector is not bright. Consumer demand is unlikely to rise strongly until later this year, and there are few consumer items on the market capable of leading the industry out of the doldrums.

However, computer sales are expected to improve, while semiconductor sales are reflecting strong US demand.

FINANCIAL

Prudence pays at Mitsubishi

THE LATE 1980s "bubble" gave many Japanese institutions ambitions beyond their means. Mitsubishi Bank made mistakes then but kept tighter control on lending than most competitors.

It is expected to announce non-performing loans of Y400bn ($3.6bn) at the end of March – about 1.3 per cent of outstanding loans and lower than the 3 to 4 per cent at other leading institutions.Fund management returns are higher on falling interest rates.

HEAVY INDUSTRY

Saved by diversification

JAPANESE shipbuilders had full order books last year, although new orders fell, while steelmakers were bruised by a drop in private construction orders and softer demand from the car industry.

Kobe Steel is likely to have the honour of reporting higher net profits than Nippon Steel, the world's largest steelmaker. While Kobe's net profits are forecast to fall from Y29bn to Y12bn, it will beat the Y4bn forecast at Nippon, and better than other leading makers, which expect to break even.

Kobe is fortunate that its diversification programme began long before the peak of steel demand in the mid-1980s, when other Japanese makers were inspired to pursue projects in electronics, theme parks and bicycle building. Steel accounts for about 48 per cent of sales, machinery 30 per cent, and aluminium and copper 22 per cent.

The returns at Kobe and other steelmakers would have been worse but for a quadrupling of export orders to China for the year.

MOTORS

Depressed domestic sales

JAPANESE vehicle makers are struggling against a deeply depressed home market, as heavy depreciation charges eat into their earnings. The results for the 1992 financial year are expected to be littered with special sales of land and stocks to cover or reduce pretax losses.

The yen's recent rise to about Y110 to the dollar will make exporting to the US unprofitable for many in the short-run.

Nissan's shares have been outperforming the market in recent weeks on the strength of its aggressive restructuring programme launched in February.

Mitsubishi has been the favourite among analysts, mainly due to its model range which is in tune with Japanese consumers' rediscovered taste for more conservative styling.

The truckmakers Hino and Nissan Diesel may be the industry's main beneficiaries from a new public works programme.

The company most likely to show a strong improvement is Suzuki, the small car maker, largely because it is well placed to exploit surging demand.

S African Breweries boosts income 6%

By Philip Gawith in Johannesburg

SOUTH African Breweries, the country's largest consumer industrial company, increased attributable income by 6 per cent, from R779m to R825m ($260m) in the year to March.

A good performance from the group's core beer interests – SAB is the seventh-largest brewer in the world – with attributable earnings rising by 16 per cent to R541m, was offset by a 10 per cent fall in earnings from non-beer activities to R284m.

The results were in line with analysts' expectations. Most of the non-beer interests, including clothes retailing, textiles, furniture, electrical appliances, and non-alcoholic beverages, performed better than expected. OK Bazaars, however, the supermarket chain, made a R45m attributable loss of which about R31m was attributable to SAB.

Mr Meyer Kahn, executive chairman, said the prolonged recession – a fall in GDP for 14 quarters – "had devastated consumer spending and placed unprecedented pressure on SAB's widespread consumer goods interests".

Mr Kahn said the damage to the economy would take a considerable time to repair, with no real growth in consumer spending until well into 1994. But he predicted increased earnings and operating cash flows for the year ahead.

Group turnover rose by 24 per cent to R21.8bn with 16 per cent coming from inclusion of the Plate Glass group for the first time. Trading profit rose by 21 per cent to R2.3bn, but higher tax held growth in after-tax profits to 15 per cent.

With a higher number of shares in issue following the Plate Glass acquisition, earnings per share rose to 304 cents from 290 cents. The dividend was increased to 137 cents from 130 cents.

INTERNATIONAL CAPITAL MARKETS

Italy lays down a path for a return to the Eurodollar market

By Haig Simonian in Milan and Sara Webb in London

THE Republic of Italy surprised investors yesterday with a plan to swap $9.15bn of its existing Eurobonds into two new issues in an attempt to pave the way for its return to the Eurodollar bond market.

INTERNATIONAL BONDS

Italy has not launched a Eurodollar bond since January 1991. Issues in other currencies have also been limited due to growing concern about the economy and the budget deficit.

Hopes of capitalising on a successful return to the markets after a DM5bn bond in January were hit by the intensifying corruption scandal – which exacerbated the mood of political uncertainty and led to a sharp decline in the value of the lira – along with downgradings of Italy's credit rating.

The timing of the latest deal, managed by Morgan Stanley, suggests the treasury and its advisers may believe the mood towards Italy has now turned, and that political reform will gain momentum under the new government of Mr Carlo Azeglio Ciampi, the former central bank governor.

Yesterday's deal allows investors to exchange outstanding Republic of Italy Eurodollar bonds for one of two new issues. Investors in any of five issues with maturities from 1993 to 1997 will be able to swap into a 5.625 per cent five-year bond. An initial $500m tranche of the new bond was yesterday fully subscribed by Morgan Stanley and a pool of other banks.

Holders of two outstanding Italy bonds with maturities in 1999 and 2001 will be able to exchange their paper for a new 6.625 per cent 10-year bond. However, holders of at least $300m of bonds will have to come forward for this transaction to take place.

Investors taking advantage of the offer will receive a new bond in exchange for their old issue, along with accrued interest due and cash adjustment amount based on the price difference between the old and new bonds.

The deal will offer existing bondholders the chance to swap into much more liquid paper, as many of the existing issues are relatively illiquid, without having to buy new paper.

The transaction has several advantages for the Republic of Italy. It will enable the treasury to gain a much better assessment of its investor base and establish benchmarks for possible future Eurodollar bonds.

The treasury indicated in January that it would like to borrow between $10bn and $15bn on the Eurodollar markets this year to reduce its dependence on the domestic bond market and extend maturities on its existing debt. That ambition, scotched by political events soon after, may now have been revived.

Bankers believe the treasury had been planning a very substantial Eurodollar bond, estimated at up to $5bn, to follow the *D-Mark* transaction. Assuming the swap offer is well received, it will now be better placed to price any new deal.

The treasury may also be keen to assess the impact on the market of last week's downgrading to A1 from Aa3 in Italy's creditworthiness by Moody's, the US debt-rating agency. Some officials suggest that the tightening of spreads on existing paper which accompanied yesterday's exchange offer suggests investor confidence in Italian paper is actually higher than Moody's rating suggests.

Eurobond dealers in London commented favourably on certain aspects of the exchange arrangement, pointing out that some investors will probably be keen to swap into a more liquid bond issue, especially since some existing Eurodollar debt is trading well over par. "It's a good idea to try to clean up existing issues because of the various distortions in the market arising from tax exemption" said one syndicate head.

But many houses had reservations about the offer. For a start, Italian investors who hold tax-exempt paper are unlikely to swap into the new, taxable issue, while those investors who are asset-swappers are unlikely to want to unwind their swaps.

"Those investors who bought Italian paper at a yield spread of around 30 basis points in the last year will probably be unwilling to sell it at 60 basis points," said one European banker.

Another syndicate manager questioned how many investors will want to increase their duration by exchanging their bonds.

The bonds were reoffered at the issue price of 99.52 but were quoted at 99.24 by late afternoon for a yield spread of 65.5 basis points, according to Morgan Stanley.

While Italy grabbed the market's attention, there were a clutch of other interesting deals. The International Finance Corporation, the private sector affiliate of the World Bank, made its debut in the Euroyen sector with Y40bn of 4.375 per cent, five-year bonds.

The deal was seen as aggressively priced with a yield spread of 17 basis points over the No 111 JGB, and some rival houses suggested a yield spread of 24 basis points would have been more appropriate. The IFC issue was priced to yield 10 basis points more than an existing World Bank Euroyen bond, the 4¾ per cent due 1997, and the deal held its spread, according to Nikko, the lead manager.

The proceeds were swapped into dollars and the borrower is expected to achieve "substantially sub-Libor" funding of at least 30 basis points below Libor.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Republic of Italy	500	5.625	99.52R	Jun.1998	0.25R	-	Morgan Stanley Intl.
Bank America‡(a)	300	(a)	100R	May.1998	0.25R	-	Kidder Peabody
Best Denki♦(b)	160	1.375	100	May.1997	2.25	-	Daiwa Europe
Banco Excel(c)	50	10.5	98.404R	Nov.1995	1.25R	+725(c)	Banque Indosuez
YEN							
International Finance Corp.	40bn	4.375	99.76R	Jun.1998	0.25R	-	Nikko Europe
D-MARKS							
LKB Finance	300	6.25	101.65	Jun.1998	2.00	-	Bayer. LandesBk./SBG

Final terms and non-callable unless stated. The yield spread (over relevant government bond)at launch is supplied by the lead manager. ♦With equity warrants. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Callable May 1996, and each coupon date thereafter. Coupon pays 35bp above 3 month Libor. b) Exercise period 10/6/93 - 14/5/1997. Long first coupon. Denom: 5000 + 1. c) Spread is over the interpolated yield curve.

Trading in Argentaria gets off to a brisk start

By Tom Burns in Madrid

ARGENTARIA, the state-controlled Spanish banking corporation which has issued 25 per cent of its shares on the domestic and international markets, traded briskly on its opening day yesterday when its share price rose by more than 11 per cent in Madrid.

The shares rose sharply from Pta3,800 to Pta4,305 before easing to Pta4,230 amid heavy trading. Analysts said the trading indicated that Argentaria had struck a correct balance in its share price by offering a sufficient premium to investors.

Heavy demand for Argentaria meant domestic retailers were limited to maximum investments of little more than Pta280,000 ($2,370) against the original Pta8m limit outlined in the share offer.

Bundesbank pleases with bigger-than-expected repo rate cut

By Jane Fuller in London and Patrick Harverson in New York

GOVERNMENT bond markets rallied across Europe in the wake of a bigger-than-expected cut in the German repo rate.

GOVERNMENT BONDS

The 11 basis point cut to 7.60 per cent was not only a pleasant surprise in itself, but also raised hopes that the Bundesbank Council might reduce official interest rates at next Wednesday's meeting. The repo is now only 35 basis points above the discount rate and 90 basis points below the Lombard rate.

The move was seen as confirmation that the Bundesbank was accelerating the reduction in interest rates. This was particularly good news for the short end of the market, and the yield curve took a step nearer normalisation with two-year stock starting to yield less than five-year stock.

Further out along the curve, 10-year bunds, which had suffered the biggest losses in the recent sell-off, found some demand again. The yield fell by about 5 basis points to 6.72 per cent. But this area is still seen as vulnerable if the Danes vote Yes to Maastricht, lessening the safe-haven motive for holding longer-dated bunds.

The June bund futures contract rose from 94.83 to 95.15 during the day.

The Dutch and Belgian central banks followed the German move with bolder cuts of 25 basis points in their key rates – another factor giving the Bundesbank scope to ease next week. Both their government bond markets benefited.

Dutch state loans continued to surge, with the yield falling to 15 basis points less than that on bunds. The question was being raised as to whether it was time to take profits.

France outperformed the German market slightly and the yield spread between the 10-year benchmarks went back through the 40 basis point barrier.

■ IN the UK, trade in government bonds was comparatively quiet. Without any stimulating economic data to mull over, most thoughts were trained on the likely gilt auction announcement by the Bank of England tomorrow.

However, the pre-auction aversion that had attached to 10 to 15-year stock relented to some extent. The 8 per cent gilt due 2003 gained about ¾ of a point and the 8¼ per cent 2013 was nearly ½ point up.

■ US TREASURY prices fell across the board yesterday after a bigger-than-expected rise in the April producer prices index revived fears of inflation.

By midday, the benchmark 30-year government bond was down $\frac{11}{32}$ at $103\frac{8}{32}$, yielding 6.861 per cent. At the short end of the market, the two-year note was down $\frac{1}{32}$ at 100¼, to yield 3.791 per cent.

Prices began falling after the Labor department announced that the *PPI* rose 0.6 per cent last month. Analysts had forecast a rise of only 0.2 per cent.

To make matters worse, the "core" measure of producer price inflation, which excludes volatile food and energy prices, rose 0.4 per cent in April, a worryingly big rise.

Analysts said the figures confirmed their view that inflation is on an upward course, but warned against over-reacting to the data. The big fall in bond prices, however, was partly to blame on the timing of the PPI report's release. Coming in the middle of a huge refunding round, bad news on inflation could only have made a market facing a large injection of fresh supply even more nervous.

In particular, dealers were worried that the PPI news would scupper the afternoon auction of $10.75bn in 10-year notes.

■ IN THE absence of fresh economic news, the Japanese government bond market continued to float downwards as technical factors and negative sentiment dominated trade.

The background has been the growing belief that economic recovery is on the way, as reflected in the recent positive mood towards equities (with yesterday's fall in the Nikkei stock market index seen only as a normal daily fluctuation). This week's softness of the yen against the dollar has also removed a prop for government bonds.

In the cash market, the benchmark No 145 bond due March 2002 underperformed again, its yield rising from 4.51 per cent to 4.57 per cent in Tokyo trading.

The view seemed to be that the 145 still looked expensive compared with both the benchmark-designate No 153 due December 2002, which trades nearer par value, and the futures.

FT FIXED INTEREST INDICES

	May 12	May 11	May 10	May 7	May 6	Year ago	High *	Low *
Govt Secs (UK)	94.92	94.84	94.86	94.79	94.76	88.84	98.04	93.28
Fixed Interest	110.96	111.02	110.95	110.91	111.02	103.82	113.83	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (8/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	May 11	May 10	May 7	May 6	May 5
Gilt Edged Bargains	110.7	97.3	111.6	79.1	113.1
5-Day average	102.4	102.4	103.7	103.7	114.4

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	114.4049	+0.461	7.46	7.68	7.80
BELGIUM		9.000	03/03	110.7000	+0.350	7.43	7.40	7.38
CANADA *		7.250	06/03	97.5500	-0.500	7.60	7.48	7.54
DENMARK		8.000	05/03	103.0000	+0.925	7.56	7.55	7.90
FRANCE	BTAN	8.000	05/98	105.5625	+0.381	6.65	6.64	6.92
	OAT	8.500	04/03	109.3800	+0.550	7.15	7.12	7.13
GERMANY		6.75	04/03	100.2350	+0.410	6.71	6.73	6.59
ITALY		11.500	03/03	96.2050	+0.486	12.54†	12.72	13.31
JAPAN	No 119	4.800	06/99	101.9506	-0.148	4.39	4.34	4.30
	No 145	5.500	03/02	106.0310	-0.270	4.55	4.33	4.33
NETHERLANDS		7.000	02/03	103.0200	+0.650	6.56	6.66	6.58
SPAIN		10.300	06/02	92.2835	-0.481	11.71	11.58	11.69
UK GILTS		7.250	03/98	100-19	+1/32	7.10	7.09	6.69
		8.000	06/03	99-17	+3/32	8.07	8.04	7.68
		9.000	10/08	104-18	-	8.47	8.41	8.11
US TREASURY *		6.250	02/03	102-09	-11/32	5.93	6.06	6.12
		7.125	02/23	103-08	-18/32	6.86	6.80	6.89
ECU (French Govt)		8.000	04/03	102.5000	+0.530	7.63	7.57	7.50

London closing *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Salomon plans market in UK equity options

By Tracy Corrigan

SALOMON Brothers plans to start making markets in UK equity options on Liffe next month, as part of its expansion of its European equity market operations.

Salomon will act as an assigned market maker in at least 20 options on the most internationally traded UK stocks, but will not trade FT-SE options.

Mr Paul Varcoe has been hired from Swiss Bank Corporation to head a small team of equity options traders.

Poor trading volume in UK equity options has failed to revive following the much-vaunted merger of the London Traded Options Market with Liffe last year, but the market has managed to attract a fresh supply of market makers, now numbering eight. Salomon "intends to add liquidity" to the market, according to Mr Andrew Barret, head of European equity trading.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on May 12

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield	OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105⅞	106⅜		4.06	ARBED 7 1/2 95 LFr	500	98¾	99¼		8.13
ALBERTA PROVINCE 9 3/8 95	600	110⅞	111¼	-⅛	4.57	ECSC 7 3/4 94 LFr	1000	100	101		7.72
AUSTRIA 8 1/2 00	400	113⅞	114⅜	-⅛	5.92	WORLD BANK 8 96 LFr	1000	101⅞	102⅜		7.46
[illegible]						[illegible]					

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	58	2	16
Other Fixed Interest	3	6	6
Commercial, Industrial	405	164	830
Financial & Property	248	65	486
Oil & Gas	29	9	46
Plantations	1	1	6
Mines	30	19	90
Others	54	27	38
Totals	828	293	1,520

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
25	F.P.	-	32	29	Bruntcliffe Aggregates	32		-	-	-	-
176	F.P.	-	228	193	David Brown	228		W6.0	2.4	3.3	16.2
100	F.P.	-	108	100	Fleming Emerg Mkts	105		-	-	-	-
-	F.P.	-	1	½	Gaelic Res. Wts.	1		-	-	-	-
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or-
175	Nil	4/6	24pm	18pm	AAF	20pm	
550	Nil	8/6	120pm	105pm	Allen Cnsty Egent	106pm	
63	Nil	13/5	27pm	12pm	Avesco	25pm	
340	Nil	14/5	26pm	20pm	BS	21pm	
92	Nil	7/6	54pm	29pm	Headlam	52pm	+6
185	Nil	7/6	24pm	11pm	Harding	18½pm	+½
290	Nil	10/6	68pm	41pm	Meyer Intl.	68pm	+7
60	Nil	11/6	4pm	3pm	Newmark (Louis)	4pm	
32	Nil	24/5	8pm	7pm	‡Sovereign Res.	8pm	+1
5	Nil	17/5	1¼pm	½pm	Sycamore	½pm	
47	Nil	16/6	8pm	6pm	UK Safety	8pm	

b Figures based on prospectus estimates. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. ‡ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Apr. 26
- Last Dealings May 14
- Last Declarations Jul. 29
- For settlement Aug. 9

3-month call rate indications are shown in Saturday editions.

Calls in Aegis, Avesco, Babcock, Blacks Leisure, Enterprise Computer, Emess, Ferranti, Greenwich Res., Heritage, Learmonth & Burchett Mngemt. Syst., Natl. Home Loans Cnv. Pref. and Ramco Oil Servs. Puts in ASDA, Arcon, Northamber and Ratners. Doubles in Gestetner and Regalian Props.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Jul	Oct	Jan	Jul	Oct	Jan
Allied-Lyons	550	30	43	52	25	32	41
(*565)	600	10½	24	33	59	66	72
[illegible]							
Unilever	1050	68	93	108	15	25	32
(*1091)	1100	38	62	78	37	48	53
Utd Biscuits	420	30	43	50	22	30	35
(*424)	460	15	24	31	45	55	58

Option		May	Aug	Nov	May	Aug	Nov
BAT Inds	850	38	69	87	3	23	43
(*885)	900	8	40	58	25	46	68
[illegible]							
Barclays	420	23	37	47	9	19	29
(*435)	460	6	17	28	31	42	50
Blue Circle	260	12	24	31	11	20	28
(*261)	280	6	15	23	28	34	41
British Gas	280	20	29	33	3	7	13
(*296)	300	7½	17	22	18	15	23
Dixons	220	13	23	29	12	21	26
(*221)	240	5½	14	21	25	34	39
Eurotunnel	360	38	56	72	10	24	32
(*380)	390	20	40	53	24	38	47
Brit Aero	300	28	51	59	1½	19	32
(*325)	330	6	32	47	13	35	48
BAA	750	13	32	50	8	33	43
(*755)	800	1	14	28	50	66	74

Option		Jun	Sep	Dec	Jun	Sep	Dec
Glaxo	600	56	61	83	10	28	43
(*643)	650	23	53	67	30	50	69
[illegible]							

PUTS

May	1	1	1½	4½	15	44	90	142
Jun	6	8	12	22	39	65	102	142
Jul	13	17	27	39	57	82	112	148
Aug	20	29	39	52	71	94	123	167
Dec †	-	60	-	92	-	132	-	190

May 12 Total Contracts 40,729
Calls 23,566 Puts 17,163
FT-SE Index Calls 7,304 Puts 7,856
Euro FT-SE Calls 1,700 Puts 988
*Underlying security price. † Long dated expiry mths. Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Wed May 12	Day's change %	Tue May 11	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (23)	127.52	+0.05	127.46	1.94	4.09
2	5-15 years (24)	146.06	+0.26	145.68	1.88	5.22
3	Over 15 years (9)	158.58	+0.23	158.22	2.38	3.48
4	Irredeemables (6)	174.92	+0.19	174.59	0.45	6.12
5	All stocks (62)	142.76	+0.19	142.50	1.99	4.66
	Index-Linked					
6	Up to 5 years (3)	183.00	+0.08	182.85	0.45	1.92
7	Over 5 years (11)	171.54	+0.22	171.16	0.92	1.72
8	All stocks (14)	171.98	+0.20	171.61	0.85	1.75
9	Debs & Loans (66)	128.92	+0.24	128.61	2.23	4.07

	AVERAGE GROSS REDEMPTION YIELDS		Wed May 12	Tue May 11	Year ago (approx.)
	British Government				
1	Low	5 years	7.07	7.10	8.20
2	Coupons	15 years	8.02	8.06	9.00
3	(0%-7¾%)	20 years	8.25	8.28	9.00
4	Medium	5 years	7.37	7.39	9.18
5	Coupons	15 years	8.45	8.49	9.03
6	(8%-10¾%)	20 years	8.55	8.58	9.01
7	High	5 years	7.58	7.58	9.40
8	Coupons	15 years	8.70	8.74	9.15
9	(11%-)	20 years	8.75	8.78	9.11
10	Irredeemables(Flat Yield)		8.61	8.63	9.21
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.75	2.77	3.78
12	Inflation rate 5%	Over 5 yrs.	3.59	3.61	4.39
13	Inflation rate 10%	Up to 5 yrs.	1.95	1.97	3.12
14	Inflation rate 10%	Over 5 yrs.	3.42	3.43	4.21
15	Debs &	5 years	9.05	9.08	10.58
16	Loans	15 years	9.52	9.55	10.41
17		25 years	9.67	9.69	10.31

Dull performance in UK behind 15% decline at Body Shop

By Maggie Urry

ANNUAL PRE-TAX profits from Body Shop International, the natural toiletries and cosmetics group, fell 15 per cent from £25.2m to £21.5m in the year to end-February.

The decline matched forecasts, however, and the shares rose 6½p to 204½p.

Despite the reduction in earnings per share from 8.8p to 7.4p, the recommended final dividend is increased from 0.92p to a recommended 1.02p, to give a total of 1.7p, up 6.25 per cent after an unchanged interim.

Mr Gordon Roddick, chairman, said the rise reflected underlying confidence and showed the board's "view of the business on more than just a one year basis".

The profit fall was attributed to lower like-for-like sales in the UK, down 6 per cent for the year after a 3 per cent fall in the first half; the £1.3m cost of moving the US headquarters, and the increase in overheads from the move to a new UK head office, production and warehouse site.

Mr Roddick said a "major operational reorganisation" would "have a crucial effect on our future strategy".

Group turnover rose 14 per cent to £168.3m. However, including franchisees' retail sales, turnover was up 18 per cent to £363m.

The group opened 173 shops, taking the total to 900, of which 233 (210) are in the UK. It plans another 150 in the current year, with only a few in the UK.

UK operating profits fell from 16.5m to £11.2m. A new head of the UK retail business has been appointed, and more aggressive advertising is planned.

In the US, profits rose from £1.5m to £2.1m, despite the £1.3m relocation cost. Retail sales were up 53 per cent, 3 per cent in comparable stores.

Mr Roddick said that Chicago and Los Angeles, cities which had each had two stores and two new ones opened, had seen sales in the older stores fall 15 to 20 per cent. But he said each city would eventually support far more shops, and this was a short term effect. Profits from elsewhere in the world rose from £9.9m to £11m. Like-for-like sales growth was 6 per cent.

Mr Roddick said gearing had fallen from 43 per cent to 35 per cent, as debt reduced to £28.5m at the year end. Working capital had been cut. A $45m (£29.2m) 7 year loan note had been privately placed in the US allowing the overdraft to be repaid.

Capital expenditure of £20m last year would fall to £12m in the current year, he said. Spending will be on new information systems, the cosmetics manufacturing side, and in the US.

See Lex

Tony Andrews

Anita and Gordon Roddick: dividend rise reflected underlying confidence and showed extended view of business

Time to change the window display

Maggie Urry looks at the way forward for the Roddick family

"BODY SHOP", says the taxi driver at Littlehampton station, more a statement than an enquiry as to destination.

It is a fair assumption that anyone getting off the London train at the south coast seaside resort-cum-retirement home and seeking a taxi is heading for Body Shop International's new head office at Watersmead.

"Anita and Gordon," says the taxi driver on the return journey, referring to the Roddicks, managing director and chairman respectively of Body Shop, "are the biggest employers in Littlehampton. But everyone slags them off".

Littlehampton does not like the slogans on the lorries, he says, and worse still "you saw that naked lady on the grass? Littlehampton doesn't like it."

The naked lady needs a little explanation. Body Shop's 20 acre site, containing head office, factory, warehouse, shop and crèche, is littered with witty, life size figures. A cleaning lady continually mops the floor of the reception area.

In front of the office – a green roofed pagoda – are two groups of figures which on inspection reveal themselves to be tableaux of paintings. One, Seurat's bathers, the other Manet's Dejeuner sur l'Herbe, including the aforementioned naked lady.

The naked lady, it transpires, is a metaphor for Anita Roddick. "Anita's blatant. She has an idea and she tells everyone, and she's blunt and to the point".

The Littlehampton mentality is shared by some in the investment community. While Body Shop was generating phenomenal growth "the dinosaurs", as Anita calls stockbrokers and fund managers, could swallow the principles – even applaud them as a good marketing ploy.

But Body Shop broke faith with the City last autumn, making a profit warning, admitting in effect that the phenomenon could not go on for ever. The shares plunged.

Now there is a story going around that Body Shop is giving up its principles and becoming a "normal" company. With the usual Body Shop fervour this was denied when the group reported annual profits for the year to February down from £25.2m to £21.5m.

"Some of the less friendly observers, and Body Shop watchers, have determined that we will abandon our principles and reveal ourselves as shallow cynical exploiters. We must disappoint them," the company said.

It is clear that the non-meeting of minds between Anita and the City continues. She makes no concessions to the dinosaurs' point of view, nor do they, she believes, to hers. She finds finance boring.

Her passion is searching the world for jungle juices to incorporate into Body Shop products.

"Direct sourcing," she says, "a lot of effort goes into that but the institutions are just not interested. Financial science is what grabs their goolies".

Asked about childcare at Watersmead, she scorns to make a commercial justification for it, mentioning almost in passing that Body Shop's staff turnover is under 3 per cent – an amazingly low figure for a retailer.

"We got in because it was morally right not because we viewed it economically", she affirms. "We don't put profits into Lear jets or a chairman's Rolls Royce", implying that questions ought to be asked of companies which do.

"The crèche and the environmental issues we've done early. Others will have to follow and it will cost them more."

Even Anita, just off a 10 hour overnight flight from Brazil, where she has been arranging supplies of Brazil nut oil, admits to being too tired to cope with her colleagues' excitement about her trip. She has escaped to her husband Gordon's office and does not intend to interrupt.

Her hair – so wild in the press photos – is neatly tied back; the car park is full of cars, not bicycles; the writing on the lab wall "it is obscene to test something so unimportant as a moisturiser on an animal" is not crazy.

But it is Gordon that gives the Body Shop game away. There is a commercial company behind the image.

He does not attempt to disguise the problems Body Shop has met. They are typical of small companies which have grown rapidly.

"It has grown to a dimension where you get the illnesses of giantism. When it was small you could drop an idea in one end and it would reach the other end in two weeks. It got to the point where it took two years."

An example he gives is a window display design created for the whole group. "People would say it won't work in Australia because its winter there and they don't want spring posters. There would be three months of arguing ending up with a compromise."

Those compromises went into every area of the business. Shops in Sweden and Hong Kong would be supplied with the same shampoo range regardless of the different hair types.

"We had to change all that. The only way to change was for the whole business to be fragmented into areas that made some sense." These are UK retail, international retail – subdivided into US and the rest of the world – and the supply company. Now the group will produce market specific ranges.

The first, designed for the US, is based on blue corn (to the uninitiated, a blue version of sweetcorn) and the second is a tea tree range for Australia.

Another concern was that Body Shop "had become production led rather than retail led. The UK and international business will be headed up by retailers," Gordon stresses.

Mr Geoff Marshall, a respected retailer, has been hired to run the UK side, and Mr Michael Ross, for eight years a franchisee of Body Shop, has been put in charge of international retailing.

Body Shop has reached maturity in the UK, Gordon admits. But he reckons to attract more people into the shops through increasing the range of goods, and to become a more aggressive promoter.

With about half the group's profits made in the UK, maturity there inevitably means a slowing of the group's profit growth.

But Gordon expects that overseas expansion will be strong. Anita butts in: "When you think how big the planet is we are not a speck in the eye".

Body Shop will open its 1,000th store this year, and only a quarter of them will be in the UK. But, the sceptic asks, retailers who venture abroad have a low success rate.

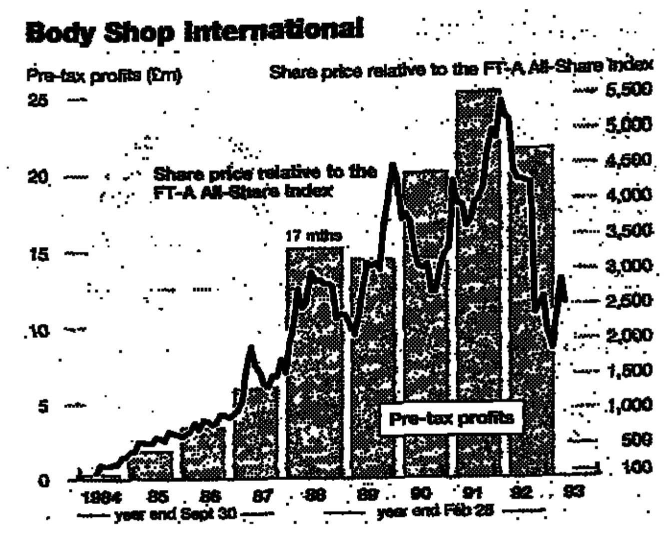
Gordon has evidently been asked that many times. "The evidence is we have controlled it quite well." He puts the success down to franchising. Each country is run by a head franchisee. "They are all individual entrepreneurs, all keen to be successful. If we'd tried growth overseas in any other way I honestly believe we would have failed. Boots pulled out of Canada after years there. Body Shop is trading very well in Canada," he says.

He puts the group's profit fall last year down to the poor economic climate in the UK, the overheads at Watersmead where the factory is running at only 25 per cent of potential capacity, and the costs of relocating the US head office.

These should be temporary problems. Similarly, Gordon asserts, the group's borrowing levels will fall as capital spending, £20m last year, reduces.

He has no anxieties about the share price. "We are not in the arena to do acquisitions or raise cash to do anything".

And he is relaxed about relations with the City. "They hate heaps of the things we say. I view it as their problem."



Bibby hit by recession in Spanish construction sector

By Peggy Hollinger

THE EFFECTS of deepening recession in the Spanish construction sector has left J Bibby & Sons, the industrial and agricultural company, with sharply lower pre-tax profits of £6.5m, against £17.3m, for the six months to March 27.

The sharp decline, on sales 48 per cent higher at £416m, appears to have cast a shadow over the future of the dividend following a 30 per cent cut in the interim to 2p.

Mr Richard Mansell-Jones, chairman, said a final payment "will need to be considered in light of the circumstances prevailing at the time". Earnings per share dropped from 9.16p to 2.06p.

Bibby's profits were depressed by a £6.9m pre-tax loss in the capital equipment division, which comprises Finanzauto, Spain's only Caterpillar distributor, and Stet, its Portuguese subsidiary. Bibby, 79 per cent-owned by South Africa's Barlow Rand group, purchased Finanzauto last summer for £86m after a hostile six-month-long bid battle. The acquisition of heavily indebted Finanzauto has also resulted in a sharp rise in interest charges from £2m to £8.2m.

Mr Mansell-Jones said the immediate outlook in Spain remained gloomy. Although Finanzauto had been restructured, the beneficial effects had been masked by a further decline in the construction equipment market.

Mr Mansell-Jones also warned on the group's outlook in the second half, saying recession in continental Europe and the Far East had made prospects uncertain. However, he was more optimistic about the US.

Frederick Cooper US growth

By Paul Cheeseright, Midlands Correspondent

FREDERICK COOPER, the metal finishing, architectural hardware and electrical products group, is expanding its US coating operations through the $6.98m (£4.56m) purchase of Florida-based Spectra Metal Coating.

The move gives the group a manufacturing base in the US for its Cooper Coated Coil subsidiary.

Parallel with the agreement to buy Spectra, Cooper has entered into a sales agreement with Spectra Metal Sales, controlled by Mr Thomas Snell, a shareholder of Spectra Metal Coating.

Spectra Metal Sales has been taking over 70 per cent of the Metal Coating output, but Mr Ed Kirk, chairman of Cooper, said this proportion would drop as the metal coating company expanded sales.

Cooper is financing the deal by bank borrowings to raise gearing to 60 per cent, from 21.9 per cent at end January.

Lowndes Lambert £8m buy

LOWNDES Lambert Group Holdings, the insurance broker, is paying a total of £8m for the insurance broking and planning business of Norex, the financial services group.

Shares in Norex rose 12p to 165p following the announcement. Lowndes shares eased 1p to 347p.

Some £6m of the consideration will be satisfied through the issue of 1.79m shares, which are being placed by Kleinwort Benson at 335p apiece.

In addition, Norex is being issued 584,796 shares, at 342p, and has undertaken to retain the stake for 12 months from completion.

The two companies being acquired, Norex Insurance Brokers and Norex Financial Planning, produced brokerage of £7.2m in the year to June 30 1992 and an attributable profit of £47,000.

Lowndes said that in addition to the shares being placed in relation to the acquisition another 1.1m were being placed for cash at 335p to provide funding for future opportunities.

Greenalls cautious despite 10% rise

By Philip Rawstorne

GREENALLS GROUP, the pubs and hotels operator, lifted interim profits by 10 per cent but said it was still waiting for "tangible evidence of a real recovery that will be sustained."

Though economic indicators were showing signs of an upturn, the trading background remained challenging, said Mr Andrew Thomas, chairman and chief executive.

"Trading in the hotel sector generally has not improved and although occupancy is increasing, room rates remain under pressure throughout the industry."

Pre-tax profits for the six months to March 26 moved ahead from £23.4m to £25.7m – below market forecasts; the shares lost 13p to 414p.

Operating profits of the group's pubs rose 7.7 per cent to £22.2m. Drink sales were 4.4 per cent higher and food sales rose 20 per cent. Spending on acquisitions and refurbishment totalled £11m in the first half and expenditure of £27m is planned during the rest of the year.

The 109 Premier House branded pub restaurants and lodges lifted operating profits from £3.1m to £3.45m, helped by growth of 44 per cent in accommodation income and 34 per cent in food sales. Spending on acquisitions and development in the first half totalled £9m and a further £16m will be spent this year.

De Vere hotels maintained profits at £6.1m. Occupancy rose from 53 per cent to 62 per cent but achieved room rates fell 12 per cent to £44.

The group will open a new four-star hotel, Oulton Hall, near Leeds, shortly. "Overall, we look forward in the second half to stable trading conditions," Mr Thomas said.

Off-licence operating profits improved from £1.81m to to £2.31m, reflecting a full contribution from the Blayneys chain, acquired last year.

In contrast, drinks and services operating profit fell 26 per cent to £2.53m, mainly due to depressed volumes and a decline in contract packaging in the soft drinks market.

Manufacture and distribution of Del Monte products will begin later this year.

Gin and vodka production was 15.4 per cent higher and increased volumes of own-label products helped raise the group's share of the UK white spirits market to 12.9 per cent.

The interim dividend goes up from 4.84p to 5.08p, payable from fully diluted earnings per share of 11.12p (10.65p).

Pittencrieff improves 28% to £4.5m

By Peggy Hollinger

PITTENCRIEFF, the natural resources and communications company embroiled in a hostile bid for USM concern Aberdeen Petroleum, yesterday reported a 28 per cent rise in pre-tax profits to £4.5m for the year to December 31. Sales were 83 per cent ahead at £18.7m.

Mr Terry Heneaghan, the chief executive who warned last week that annual profits would not meet analysts' expectations of £5.5m, said the lower than expected return was entirely due to difficulties in integrating the 13 communications businesses acquired for $23m (£15m) last year.

"We had a bit of indigestion trying to take on those 13 acquisitions," he said. However, the problems had been tackled and the group was currently making savings of more than $100,000 a month from measures implemented since the year-end.

The communications division, which will be floated in the US this summer, saw a rise in monthly revenues from $1m to $2m. Oil and gas production rose by 9 per cent in 1992. Mr Heneaghan said the group expected to spend $2.8m this year on capital expenditure in this division.

Net debt rose from £4.9m to £11.7m. Mr Heneaghan said the group had more than adequate banking facilities to finance its offer for Aberdeen, which includes a cash alternative valuing the target at £8.7m.

The final dividend is increased from 3.5p to 4p, for a total of 7p (6p). Earnings per share fell 5 per cent to 15.63p.

NEWS DIGEST

Acquisition helps Barlo to I£3.9m

SALES growth and acquisition boosted pre-tax profits at Barlo Group, the Irish radiator and plastic packaging manufacturer, from I£1.84m to I£3.9m (£3.84m) over the 12 months to March 31.

Turnover leapt from I£14.7m to I£49.7m, partly reflecting consolidation of IRG, a plastic packaging business, for eight months.

The group reported a 35 per cent increase in radiator sales to I£19.9m "with significant gains in market share achieved in the UK, Irish and other European markets".

Barlo achieved a 12 per cent share of the UK market for domestic radiators and anticipates further growth in European sales with the opening of a sales office in Belgium.

An "extensive restructuring" of IRG's operations had been carried out, giving it a low-cost manufacturing base and good growth prospects for 1993. Further plant investment is planned.

Net borrowings at the year end were I£6.3m, representing gearing of 22 per cent.

Earnings per share improved 20 per cent to 3.65p. A dividend of 0.5p is proposed for the year, the first distribution since 1989.

Tomkinsons 12% ahead at £430,000

Tomkinsons, the yarn and carpet group, returned profits of £430,000 pre-tax for the six months to April 3, an improvement of 12 per cent over last time's £384,000.

Turnover improved from £9.92m to £10.4m with exports ahead by 17 per cent. Interest income of £10,000 compared with a previous £14,000 charge. Earnings edged ahead to 4.7p (4.2p) and the interim dividend is a same-again 3.5p.

The results were achieved against a background of a market that remained difficult.

Pilkington expands insulation side

Pilkington Insulation, a subsidiary of the glass group, has acquired Ecomax (UK).

The purchase price was not disclosed, but Pilkington said the acquisition represented less than 1 per cent of group assets.

Ecomax is a sales and marketing organisation previously owned by Rockwool of Sweden – a division of Partek of Finland.

Pilkington will acquire the exclusive rights to import Partek rock wool insulation and fire protection products, including those made by Steinullarverksmidjan of Iceland, in which Partek has a minority holding.

Finsbury Trust net assets improve

The net asset value of Finsbury Trust advanced from 111.1p to 128.7p over the 12 months to March 31.

Mr Jamie Borwick, chairman of the trust, which invests in strategic holdings and special situations, said the quoted portfolio had performed in line with the FT-A All-Share Index but that unlisted investments fared less well.

Attributable revenue improved from £776,000 to £372,000, for earnings of 3.6p (3.2p) per share. A recommended final dividend of 2p lifts the total to 3.2p (3p).

Fyffes in Spanish joint venture

Fyffes Group, the Dublin-based fruit wholesaler, has entered into a joint venture with Coplaca (Grupo Regional de Cooperativas del Archipielago Canario), the largest banana producing co-operative in the Canary Islands.

The two companies are establishing a Spanish company on a 50:50 basis to market, distribute and ripen bananas from the Canaries in continental Europe. The new company is expected to have annual sales of $100m (£65m).

Scottish Value Trust net assets up 25%

Net asset value of Scottish Value Trust rose to 75.12p at March 31, an improvement of 25 per cent over the 59.22p standing a year earlier.

Net revenue for the half year to end-March rose from £191,000 to £316,000. Earnings emerged at 0.66p (0.82p). The interim dividend is lifted to 0.85p (0.8p).

The placing and open offer in September 1992 increased the number of shares in issue from 23.4m to 47.9m.

Blenheim expands in France

Blenheim Group, a publisher and organiser of exhibitions, has acquired Sodex, the owner of the rights to two triennual exhibitions north of Paris for the plastics technology market.

Consideration amounted to less than 2 per cent of the company's present market capitalisation of £480m. The vendors were ADMS, a trade association for the plastics industry, Comite des Expositions de Paris and certain private individuals.

Slight reversal at Jessups

Profits of Jessups, the Romford-based car dealer, sliped from £189,000 to £160,000 pre-tax for the six months ended February 28.

Turnover improved from £38.3m to £40.4m.

The directors said trading conditions in the opening months of the period were particularly severe, aggravated by an unprecedented fall in used car values.

However, they added that they believed the worst of the recession was now behind them and that the group would respond well to a more stable trading environment.

Losses per share widened to 0.96p (0.24p) but in view of the improved outlook the interim dividend is maintained at 1.5p.

The shares declined 6p to 92p.

Heron Intl restructuring is 'flawed'

By Maggie Urry

HERON International's financial restructuring is flawed and carries a "fairly high probability of default" according to one representative of the property group's bond holders.

However, he accepted that the proposed refinancing, explained to bondholders in a 219-page document, would have to go ahead. The group is already surviving on the goodwill of its banks, which have had to put up further new money. If there was a suggestion that the restructuring plan had to be renegotiated, he said, the banks would withdraw that support.

In the document Price Waterhouse, the accountants, say that insolvency proceedings would produce a lower pay-out to creditors and long delays in payments. The document sets a final date for the restructuring to be complete by July 31. Creditor meetings will be held at the end of June.

The business plan underlying the refinancing of Heron's debts, which totalled £1.7bn in November, when sterling's weakness increased the value of foreign currency borrowings, depends on a recovery in the property market.

The bond holder representative said that the structure of senior debt, junior debt and equity was meaningless since servicing the senior debt alone requires an improvement in the property market. He said the different categories were no more than "entitlements to whatever there is".

The document details Heron's losses for the year to March 1992, when net losses of £693.1m produced negative net assets of £328m. On a pro-forma basis the restructuring would give the group net assets of £12m.

However, the document also says, "further material reductions in values will need to be incorporated in the financial statements for the year ended March 31 1993." Also net assets would fall again because interest charges exceeded operating income and the fall in the pound had increased the foreign debt.

Four pages of the document are devoted to 27 legal cases Heron is involved in. These include a $83m (£53.9m) claim from the owner of Pima, a US savings and loan company taken over by a government agency in 1990. The suit is against Mr Gerald Ronson, Heron's chairman, and other directors and managers, but Heron has indemnified them.

Heron's housebuilding subsidiary is being sued by purchasers of properties in a Docklands development. They say council tenants were housed in the development reducing the value of their homes.

Fine Art up 16% to £34.4m

By Peter Pearse

FINE ART Developments, the mail order and greetings card company, continued to buck the trend in the retail sector and yesterday unveiled a 16 per cent increase in pre-tax profits in the year to March 31.

The record pre-tax outcome of £34.4m (£29.7m) was struck on turnover up 8 per cent at £311.5m (£287.3m).

The mail order side was the main engine of growth, contributing operating profits up 10 per cent at £22.8m from turnover of £171.1m (£150m). Both profits and turnover in the cards and paper products division grew by 2 per cent – to £19.7m (£19.3m) and £140.5m (£137.4m) respectively.

Sales at Express Gifts slipped 5 per cent to £89m, as did they did in the charity trading business to £22.1m, due mostly to the recession-driven decline in average order values. However, sales in the hampers business rose 24 per cent to £19.6m and overseas sales more than doubled to £23.6m.

Tom-Wat, the loss-making charity mail order services company acquired for $1m last May, is now breaking even.

In cards and paper products, wholesale sales slipped 1 per cent to £58.3m as retailers reduced stock levels towards the year-end. As leases reverted to the group, Papertree, the retail chain, expanded to 90 outlets, although Mr Keith Chapman, chairman, said last May that he wanted to reduce the then-80 outlets to less than 70. However, the chain was, for the first time, in the black at the operating level.

Interest charges fell by £2.57m to £7.69m because of lower rates and also because borrowings (including finance leases) declined to £39m (£48.3m).

A final dividend of 9.75p (8.3p) is proposed, to make a total of 12.75p (11p), payable from earnings of 30.26p (25.36p) per share.

● **COMMENT**

As and when the recession recedes Fine Art should reap the rewards of the capital investment it has made during the slump. A thorough-going redesign of the cards, an increase in the retention of agents, and these better-than-expected results all augur well. Moreover the management has said that Fine Art's constituent businesses are running smoothly enough for it to explore expansion possibilities. A US manufacturing acquisition or a greenfield start-up there could be on the cards, as could an attempt to offset the UK mail order side's Christmas bias. Although the shares – up 6p at 552p – stand at a not undeserved premium to the sector, they may not have too much upside, possibly limiting acquisition options.

Oriel shows turnround to £74,000 loss

By Catherine Milton

ORIEL GROUP, the USM-quoted insurance broker, announced pre-tax losses of £74,000 for the year to end-December compared with profits of £2.44m in the previous 12 months.

The group also announced the acquisition of a used car breakdown warranty company for an initial £8.71m, funded by a £3.5m placing with partial clawback.

Oriel is paying £4.77m for Warranty Holdings' total share capital. It will pay one of the remaining shareholder-directors £200,000 in advance of a deferred payment scheme. It will also advance Warranty a total of £3.74m to settle debt.

Exiting shareholders will receive £3m, mostly in cash, while remaining shareholders will be paid £650,000 in ordinary shares and £1.12m in unlisted convertible redeemable shares of 10p each.

Mr Peter Head and Mr David Latimer, the principal vendors, will continue as managing and sales directors respectively.

They stand to gain a further £5.92m in deferred consideration, payable in 1996, depending on profits.

Warranty made pre-tax profits of £183,000 (£725,000) in 1992. At the year-end, it showed a net deficiency of assets of £4.46m, of which £4.47m related to goodwill written off following a management buy-out.

Oriel said the acquisition would consolidate its strategy of developing businesses which control their own distribution networks focused on a high volume of low value transactions.

The acquisition will be funded by a bank loan and a £3.5m placing with the Oman National Insurance Company at a premium price of 100p per share. Shares in Oriel climbed 6p to close at 84p.

Qualifying Oriel shareholders will be able to subscribe for about half the new issue on an 8-for-1 basis at the same price.

Oriel's turnover dipped to £11.5m (£12m). The board proposed a final dividend of 3p (3.2p), giving an unchanged total for the year of 5p. Losses per share were 5.8p (earnings 11p).

LWT drops restriction on stake

By Raymond Snoddy

LONDON Weekend Television yesterday removed restrictions preventing anyone owning more than 10 per cent of the company.

The restriction, insisted on by the old Independent Broadcasting Authority to prevent takeovers of ITV companies in mid-franchise, has not been a requirement since the beginning of this year.

Sir Christopher Bland, chairman of LWT Holdings, said after yesterday's annual meeting that the board took the view that it could no longer hide behind the restriction and that it was an anachronism.

" This should not be seen as an exhortation or inducement to bid," Sir Christoper said.

LWT's largest shareholder, Mercury Asset Management, holds about 18 per cent of the ITV company. The shareholding was not caught by the 10 per cent restriction because it is spread across several funds.

LWT is believed to be the first of the ITV companies to vote to remove the 10 per cent restriction.

From next January ITV companies can be taken over on the Stock Exchange, subject to the approval of the Independent Television Commission.

The annual meeting also approved a special payment of £375,000 to Mr Marcus Plantin, former LWT director of programmes who is director of the central ITV Network.

The LWT money was half of what Sir Christopher described as "the cost of his departure." The other half of the £750,000 payment, which was intended to compensate Mr Plantin for his loss of LWT share options, was paid by the ITV system.

There was no sign of a shareholder revolt against the management share scheme that should net more than £55m gross for 44 managers and create 15 LWT millionaires.

Time Products clocks up 22% advance to £9.3m

By Andrew Bolger

WHEN THE chairman of Time Products, the watch and jewellery distribution group, talks about the luxury end of his market he really does mean luxury.

Some of the watches which Mr Marcus Margulies' group handles sell for several hundred thousand pounds each.

Although Time Products also owns the mass-market Sekonda brand of watches, it is on the top end of the market that the group is becoming more focused.

Yesterday Time Products reported a 22 per cent increase in pre-tax profits to £9.3m for the year to January 31, even although overall sales dipped from £51.1m to £49.6m.

About £1.3m of the profits increase was non-recurring, comprising property profits and a released provision.

Earnings per share rose to 12.6p (9.74p). A final dividend of 5.2p makes a 7.95p (7.5p) total.

Mr Margulies said: "The group's strategy in recent years has been to concentrate increasingly on the distribution of luxury branded goods both in the UK and overseas. This policy has been successfully implemented, with a growing proportion of turnover being in very high quality markets."

Time Products has exclusive agencies for several luxury watch brands – such as Blancpain, Longines and Vacheron Constantin. In March the group paid £2m for a 5 per cent stake in Audemars Piguet, the Swiss watchmaker which specialises in highly technical and luxurious pieces.

The group recently moved into a new product area with the $17m (£11m) acquisition of the business of Judith Leiber, an American who designs luxury designer handbags.

Mr Margulies said of Judith Leiber: "Its products have not been actively marketed outside North America and I am confident that there is a substantial potential for developing the brand on a worldwide basis.

"The name has also been largely unexploited on merchandise other than handbags and, in time, this will offer considerable scope for broadening the product range."

These most recent investments came together when Time Products was awarded the North American agency for Audemars Piguet, having distributed its watches in the UK for a number of years. A luxury watch showroom is now being developed at the premises of Judith Leiber in New York.

The group said effects of recession were keenly felt in the distribution of its mainstream product lines. The Sekonda brand – which accounts for about 12 per cent of all UK watch sales – suffered from problems within the retail volume jewellery industry, in spite of a successful advertising campaign. Longines, which sells watches in the £200 to £1,000 bracket, maintained turnover.

Last year Time Products closed Remex, its Hong Kong-based watch movement manufacturing operation. Yesterday's figures included an extraordinary profit of £1.2m, because the closure provision of £6.5m taken at the start of the period proved too pessimistic.

Mr Margulies' family controls 20 per cent of the company.

Scottish TV chief paid £0.3m

By Raymond Snoddy

MR GUS Macdonald, managing director of Scottish Television, was paid a total of £319,700 last year, making him the highest paid director of the ITV company.

The sum included a bonus of £131,166 for winning the franchise, based on one's year salary at the 1991 rate.

Scottish retained its franchise with a bid of just £2,000 a year in the 1991 tenders.

The company also has to pay 2 per cent of its advertising revenue to the government. This year the payments are expected to total £1.6m.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Barlo	fin	0.5‡	-	nil	0.5	nil
Bibby (J)	int	2	July 1	2.85	-	9.75
Body Shop	fin	1.02	July 16	0.92	1.7	1.6
Fine Art	fin	9.75	July 2	8.3	12.75	11
Finsbury Trust	fin	2	July 14	1.8	3.2	3
Greenalls	int	5.08	July 9	4.84	-	11.77
Jersey Phoenix	int	1.25*	June 30	1.25	-	5.25
Jessups	int	1.5	July 2	1.5	-	4.5
Oriel §	fin	3	July 15	3.2	5	5
Pittencrieff	fin	4	June 29	3.5	7	6
REA	int	2	Oct 1	nil	-	4
Sainsbury (J)	fin	7.3	July 30	6.35	10	8.75
Scottish Value	int	0.85	July 7	0.8	-	1.8
Time Products	fin	5.2	July 23	4.85	7.95	7.5
Tomkinsons	int	3.5	July 1	3.5	-	11.5
Whitbread Inv	fin	11.9	July 30	10.8	16.5	15

Dividends shown pence per share net except where otherwise stated. §USM stock. ‡Irish pence. *Third interim; makes 3.75p to date.

Kuwait to push for Opec quota boost

By Deborah Hargreaves

KUWAIT IS expected to push hard for a higher production ceiling at the next meeting of the Organisation of Petroleum Exporting Countries, a move that is causing tension between ministers and could shake the oil market out of its current balance.

Mr Ali Ahmed al-Baghli, Kuwait's oil minister, has this week been stressing the emirate's demands for a higher quota with his claims that output will reach between 2.2m and 2.4m barrels a day by the end of June. Industry experts dispute Kuwait's capacity growth figures, saying production should reach 2m b/d by late June, but that level is significantly higher than present output of 1.75m b/d.

Opec has successfully managed to fine-tune the market in the past two months by trimming its output to 24.1m b/d in April (according to the International Energy Agency, the Organisation for Economic Co-operation and Development's oil market monitoring body). Although this is some 500,000 b/d above its overall production ceiling it is in line with demand, which has been rising slowly.

However, producing countries are now delivering their opening gambits before next month's ministerial meeting while traders watch nervously, ready to push prices downwards at any sign of increased tension.

"The apparent stability in the market is due to totally confused signals that are being given out by different sectors," said Mr Vahan Zanoyan, senior director at Petroleum Finance Company, the oil consultants in Washington.

Oil demand is growing, particularly in the Far East. The IEA said in its April oil report that it expected demand to rise by 1.5 per cent or 500,000 b/d in the second quarter.

That is tempered, however, by continuing news from Russia of declining production. The latest reports in Russian newspapers have pointed to a drop in output in the first quarter of 15 per cent to 610.7m barrels from 718.4m barrels in the corresponding period of last year.

Mr Geoff Pyne, oil analyst at UBS, believes that Russia will have to begin cutting back on exports to the west this year as output declines further. He expects exports to drop to an average 1.1m b/d from 1.4m b/d last year.

On the back of an increase in demand and continuing falls in production in Russia, Opec will be able to justify an increase in its ceiling to about 24.6m b/d at its June meeting. That would represent a rise of about 500m b/d compared with the present output level.

Kuwait will argue for a substantial share of that increase as it continues its recovery from the Gulf war, but its demands will be strongly countered by Nigeria and Iran which are also looking to raise output. Improved relations between Kuwait and Tehran have led to rumours of a deal being arranged between the two to carve up any increased quota, but Saudi Arabia would also want its share of any rise in the ceiling.

Mr Daniel Yergin, head of Cambridge Energy Research Associates, says the market is still dominated by Opec's "triangle of contention", between Saudi Arabia, Iran and Kuwait, all of which are anxious to capture market share before Iraq re-enters.

Drumming up interest in Sakhalin crude

A fresh tender is to be held for foreign operators, writes **Hugh Fraser**

THE RUSSIAN Government has announced the second tender in two years inviting foreign companies to develop offshore oil and gas fields on the continental shelf of the far eastern island of Sakhalin.

The committee organising the tender, chaired by the academician Mr Farmen Salmanov, held its first meeting in Moscow on April 19.

The Russian authorities plan to hold up to five more tenders in the vicinity over the next few years, holding out the possibility of the Sakhalin waters becoming one of the largest offshore oil and gas regions in the world.

The second Sakhalin tender will cover fields with confirmed deposits and other areas where little geological data is available, in 23,000 square km (8,880 square miles) in the Sea of Okhotsk, East of Sakhalin, and 17,000 sq km in and around the Bay of Sakhalin in the North West of the island.

In May last year the MMM consortium consisting of Marathon Oil Company, McDermott International, and Mitsui & Company emerged as eventual winners in a tender contested by six groups of international companies.

The consortium is now known as MMMMS, having been enlarged to include Royal Dutch Shell and Mitsubishi Corporation.

Since winning the tender, MMMMS has spent $80m on a feasibility study of the Lunskoye and Piltun-Astokhskoye fields, which have combined reserves of 400bn cubic metres of gas and 730m barrels of oil. The consortium is now negotiating with representatives of the Russian Government in Houston, Texas, about details of the deal, including profit sharing. Development costs will be in the region of $10bn making it the biggest foreign investment under discussion in Russia.

One factor absent from the second tender will be the forceful personality of the former Governor of Sakhalin, Mr Valentin Fyodorov, who almost single-handedly took on the Russian government in June 1992 when he refused to acknowledge MMM as the winning consortium. His intervention lead to a highly publicised struggle between Sakhalin and Moscow over which side owned the rights to the natural resources of the continental shelf.

President Yeltsin named a new governor of Sakhalin, Mr Evgeny Krasnoyarov, on April 8 following a virulent campaign by the local soviet to remove the former governor.

Mr Keith Holmes, general manager of Shell Development Sakhalin said: "Fyodorov fought hard to get extra benefits for the island and took on the might of the Ministry of Fuel and Energy and the Moscow access that leads to. But as a direct consequence of his actions the project is probably a year behind schedule".

The administration of Sakhalin now appears to acknowledge the priority rights of Moscow. According to Mr Nikolai Arsenyev, vice governor of Sakhalin: "Unfortunately we are not in the same position as Alaska, where all the natural resources belong to the local state".

The Russian authorities hope to raise the profitability of future developments by sharing infrastructure costs among the various projects. But some foreign oilmen are doubtful about the feasibility of such an arrangement.

"Shell would not want to build a pipe line big enough to carry gas from future projects, even if they later turned out to be ours," Mr Holmes said. "If Shell knew 25 years ago what it knows now about the North sea it might have achieved optimal efficiency. But life is not like that."

Ground rules for the new tender will be announced as soon as the final deal with MMMMS is signed – which may be as early as June.

Presentations are expected to be held in Sakhalin and Houston, Texas, and packets of geological information will be sold to interested companies.

Mr Peter Sadovnik, chairman of the Sakhalin Regional Committee of Geology and Mineral Resources, refused to indicate what the possible scale of recoverable reserves might be. "All the areas look promising, or we would not be holding a tender," he said.

He said that the tender zone would be divided into several blocks with varying quality of data, ranging from those where deep drilling had taken place to others where no preparation for drilling had been done.

Russian oil companies have made exploratory drilling of two fields inside the tender zone Kirinskaya, which contains mostly gas deposits, and Arkutunskoye, which contains mostly oil. The fields covered by the MMMMS negotiations are in the region of the tender zone, but will be excluded from the tender.

The Japanese State owned Sakhalin Oil Development Company (Sodeco) holds development rights for the Chaivo and Odoptufields under an agreement signed in 1975.

A $277m feasibility study of the fields carried out by Sodeco in 1976 concluded that further development would not be economical under the conditions of the time.

The local administration of Kamchatka, in the far east of Russia, *is preparing to open competition for gold mining rights in the southern part of the Kamchatka peninsular, writes Hugh Fraser.*

The tender will mark the first occasion on which foreign companies have been invited to bid for rights to mine precious metals in Russia. It will be held in conjunction with the Russian Federation's geological committee.

The three deposits contain about 90 tonnes of gold held in quartz. Interested companies will be able to buy packets of geological data this summer.

The Russian government holds a purchasing monopoly on all gold produced in the country. If a foreign company wins the tender the government will pay 25 per cent of the purchase price in hard currency and 75 per cent into a rouble account inside Russia.

The criteria for judging the tenders have yet to be announced but the administration says environmental safety is its top priority.

Norway to streamline gas policy

By Karen Fossli in Oslo

NORWAY YESTERDAY announced sweeping reforms to gas policy designed to give foreign oil companies greater influence over their natural gas reserves and to facilitate more efficient gas resource management.

Speaking in Oslo to delegates of the Seventh European Gas Conference, Mrs Gro Harlem Brundtland, Norway's prime minister, said that foreign oil companies would be allowed representation in gas sales negotiations with potential buyers. Hitherto, gas sales negotiations have been conducted solely by the Gas Negotiating Committee (GFU), comprising Statoil, the state oil company, Norsk Hydro and Saga Petroleum, the other Norwegian oil companies.

Mrs Brundtland said although she was pleased with the achievements of the GFU, adjustments were necessary to gas policy. The changes would enable closer links between resource management and sales activities to be forged in order to accommodate a more efficient system for gas disposal, she explained.

She also unveiled a new system in which gas fields would be designated as sources of supply for contracts under negotiation. Under the new scheme the energy and industry ministry would decide which gas fields would supply a given contract before its conclusion, instead of after.

Mr James Allcock, head of gas purchasing at British Gas, said he was pleased by Norway's announcement. "The GFU itself was formed to deal with some unsatisfactory elements in the negotiation relationships and now we see its structure evolving in the light of experience. As gas buyers we welcome the decision covering the sources from which contracted gas will come and we believe this will assist our negotiations," Mr Allcock said.

British Gas is at present negotiating with the GFU on contracting annual Norwegian gas supplies of 5bn cubic metres.

- Gas price renegotiations between Norway and Germany covering supply from the giant Norwegian North Sea Troll field have become protracted and arbitration could be called for to resolve the issue. Ruhrgas, the big German distributor, has contracted 14bn cu m of gas from the Troll field and has an option that must be exercised by 1995 to take on an additional 7bn cu m.

The GFU is calling for higher prices because of the advantages of gas over competing fuels.

S African mine group may miss out on Billiton assets

By Kenneth Gooding, Mining Correspondent

SOME OF the juiciest mining and metals assets which Gencor wants to buy from the Royal Dutch/Shell group might slip from the South African group's clutches because other companies have pre-emptive rights to them.

This means that Shell's mining and metals business, Billiton, must give its partners in the joint ventures an opportunity to match any terms it is willing to accept from a third party.

The assets involved are:

- The Boddington mine in Western Australia, which last year produced nearly 352,000 troy ounces of gold. Billiton owns 30 per cent and its partners are Reynolds Metals, the US aluminium group with 40 per cent, Newcrest, the Australian mining company, 20 per cent, and Kobe Aluminium Associates of Japan, 10 per cent.
- The associated Worsley Alumina business, which mines bauxite, aluminium ore, and refines it into alumina, an intermediate product. Worsley's annual capacity was recently expanded to 1.5m tonnes of bauxite. The shareholders and their holdings are the same as for Boddington.
- Alumar of Brazil, which produces about 1m tonnes of alumina and 350,000 tonnes of aluminium a year. Billiton owns 40 per cent of the alumina refinery and 47 per cent of the aluminium smelter. Alcoa of the US owns the rest.
- Valesul, another Brazilian aluminium producer (annual capacity 92,000 tonnes) where Billiton owns 41.5 per cent, Cia Vale do Rio Doce of Brazil 49.5 per cent and Multisilicon 9 per cent.
- *The Collahuasi copper project* in Chile, expected to start up in 1996-97. A company owned by Minorco and its parent Anglo American Corporation of South Africa recently paid $190m for a one-third stake in Collahuasi. The rest is shared equally by Falconbridge of Canada and Billiton.

While Billiton's partners in these joint ventures are suffering financially because of present low metal prices, they might be reluctant to pass up the opportunity to acquire more of these assets. Much will depend on the prices Gencor is ready to offer – there are indications that these might be what other companies would consider to be on the high side. It is suggested that Gencor is willing to pay more than the $1.8bn book value of the Billiton assets because the move is of tremendous strategic importance to the South African group.

Other interests Gencor has bid for include: the Cadjebut lead-zinc mine in Australia (Billiton, 42 per cent); the wholly-owned Selbaie copper-zinc operations in Canada; Cerro Matoso nickel (52.3 per cent) in Colombia; the Bogusu gold mine in Ghana (81 per cent); the Lerokis gold mine in Indonesia (90 per cent); and the Pering lead-zinc operations in South Africa (100 per cent).

Gencor obviously has great faith in the future of aluminium – it is backing a $2bn project in South Africa for Alusaf to build a 466,000-tonne aluminium smelter, the western world's biggest ever – and so, apart from the previously-mentioned operations in Australia and Brazil, it has also bid for Billiton's other alumina operations: Paranam in Surinam (76 per cent) and Aughinish in Ireland (35 per cent).

Gencor also wants Billiton's global metals trading and marketing network – which would certainly help sell some of the extra aluminium from Alusaf.

Billiton's other downstream operations are conspicuous by their absence from the list, the most glaring omission being the half-share of the Budelco zinc smelter in the Netherlands.

South African exchange control rules prevent Gencor exporting cash to pay for the Shell assets, so it will have to borrow a great deal if its offer succeeds. However, Shell has given Gencor and its adviser, S.G. Warburg, an exclusive option allowing them 120 days grace in which to work on that problem.

Zinc concentrates shortage forecast

By Kenneth Gooding,

TODAY'S HUGE surplus of zinc concentrates, the raw material used by smelters, will swing into a big shortfall in the next two to three years, warn consultants Brook Hunt & Associates.

The shortfall could rise to 1.2m tonnes by 2,000 and 2.8m tonnes in 2,005. Brook Hunt says in a new study that the problem is being caused by today's low prices and smelters' high treatment charges, which has made about half the western world zinc mine capacity uneconomic and caused the closure so far in 1993 of 400,000 tonnes of mine capacity.

The study identifies those smelters that might lose their concentrate supplies because of mine closures and says several companies which today rely on their own mines may be forced into the custom concentrate market in future.

The Zinc Concentrate Market to 2005: £8,000 from Brook Hunt, 11 London Street, Chertsey, Surrey, KT16 8AP, UK.

Floodwaters cover half of Argentina's arable land

By John Barham in Buenos Aires

FLOODWATERS NOW cover about half of the arable land in the Province of Buenos Aires, Argentina's prime farming region, according to government officials. The heaviest rainfall in the province's recorded history has flooded some 4m hectares of farmland, cut off towns and villages, and washed roads away.

Officials now estimate flood damage at about US$400-500m. Earlier this week, the government had put damage in the region of $100m.

Most of the damage has been concentrated in the north-west and south-west of the province, but waters are now slowly spreading across the flat Pampas to the south-east.

Mr Felipe Sola, federal agriculture and fisheries secretary, said yesterday that much of the province's soyabean output had been lost. He added that Banco de la Nacion Argentina, the government-owned commercial bank, and the Central Bank would refinance farmers' debts over four years with subsidised interest rates.

Slaughterhouse strike continues

By Hilary Barnes in Copenhagen

TRADE UNION and employer representative resumed talks here yesterday to find a solution to a 19-day strike by 16,000 abattoir workers, which has paralysed the pigmeat export industry.

The strikers were expected to return to work this week, but they rejected a mediation agreement by a large majority in a membership ballot.

The conflict is primarily over working hours and the organisation of the working week, not pay.

WORLD COMMODITIES PRICES

MARKET REPORT

A higher than expected rise in the April US Producer Price Index helped to steady London **GOLD** and **SILVER** prices and lift early Comex prices. Gold bounced from an early dip on good physical business in London, dealers said. *The* market was still digesting the recent Goldsmith Newmont Mining shares sale and awaiting the return of physical demand, dealers said. **COPPER** continued to rally away from recent 5½-year lows on the LME, with sentiment becoming slightly more positive when the technical rally lifted three-month metal above $1,820 a tonne. *Three-month* **NICKEL** fell below $6,000 a tonne. Dealers said the LME's warning over the November-December premium had taken some of the steam out of the market, although a $10-$30 backwardation remained in place. New York **ORANGE JUICE** futures were sharply higher at midday, spurred mostly by speculative buying. The market is still strong technically, one analyst said, pegging resistance at the 105 cents for the July contract. Traders were waiting for the latest 1993-94 Brazilian crop estimate.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(May)		**+ or -**
Dubai	$16.37-6.40u	+.010
Brent Blend (dated)	$18.86-8.88	+.015
Brent Blend (Jun)	$19.06-9.08	-.035
W.T.I (1 pm est)	$20.32-0.34u	-.065
Oil products (NWE prompt delivery per tonne CIF		**+ or -**
Premium Gasoline	$215-217	-0.5
Gas Oil	$180-182	-1
Heavy Fuel Oil	$76-77	
Naphtha	$185-187	-1
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$357.15	+0.70
Silver (per troy oz)♣	429.5c	+2.0
Platinum (per troy oz)	$378.90	+1.15
Palladium (per troy oz)	$120.25	+1.0
Copper (US Producer)	87.0c	+1.0
Lead (US Producer)	34.83c	
Tin (Kuala Lumpur market)	14.25r	
Tin (New York)	260.0c	-0.5
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	139.85p	+2.81*
Sheep (live weight)†♠	133.25p	+0.87*
Pigs (live weight)†	90.44p	+1.60*
London daily sugar (raw)	$306.8	+6.6
London daily sugar (white)	$298.0	+3.0
Tate and Lyle export price	£312.5	+5.0
Barley (English feed)	£113.0	
Maize (US No. 3 yellow)	£166.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	57.50p	+0.25
Rubber (Jul)♥	57.75p	+0.25
Rubber (KL RSS No 1 May)	209.0m	
Coconut oil (Philippines)§	$417.5y	-2.5
Palm Oil (Malaysian)§	$370.0u	-2.5
Copra (Philippines)§	$270.0	
Soyabeans (US)	£176.5u	
Cotton "A" index	60.70c	-0.10
Wooltops (64s Super)	345p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Aug/Sep u-Jun. . z-Apr/May v-May ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX			($ per tonne)	
White	Close	Previous	High/Low	
Aug	306.00	305.50	308.50	304.00
Oct	299.00	298.00	301.00	296.00
Mar	296.20		298.40	293.00

White 1004 (197) Paris- White (FFr per tonne): Aug 1678.37 Oct 1648.03

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jun	19.07	19.07	19.14	19.04
Jul	19.03	19.02	19.12	19.02
Aug	19.11	19.10	19.18	19.10
Sep	19.17	19.19	19.20	19.17
Oct	19.23	19.21	19.25	19.21
Nov	19.28	19.24	19.29	19.26
Dec	19.30		19.32	19.27
IPE index	19.05	19.21	19.05	

Turnover 24219 (39724)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
May	180.25	180.25	180.50	177.25
Jun	177.25	178.00	178.25	177.00
Jul	176.25	176.75	177.25	176.00
Aug	177.50	177.75	178.25	177.50
Sep	178.75	178.50	179.50	178.75
Oct	181.75	181.50	182.25	181.75
Nov	183.50	183.75	184.00	183.75
Dec	185.25	185.00	185.25	185.00
Jan	185.50	185.25	185.75	185.25

Turnover 16529 (20156) lots of 100 tonnes

WOOL

The Australian wool market started rising last week, with the market indicator rising above 407 cents following a low point the week before of 381. This week the rise accelerated, and by yesterday (May 12) 442 had been reached, with the day's increase at 25 cents. Demand has been relatively greater for Merino categories. At this stage of the season, and with stockpile wools not at present in the equation, the need to cover anything oversold has become pronounced. There is a corresponding improvement in market activity in wool processing and consuming countries.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
May	651	659	655	652
Jul	674	680	678	671
Sep	688	695	692	688
Dec	708	715	710	706
Mar	729	735	730	727
May	744	749	745	743
Sep	774		773	
Dec	797		797	794

Turnover: 7310 (1741) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 12 711.47 (703.67) 10 day average for May 11 716.98 (719.97)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
May	868	872	868	864
Jul	875	881	877	868
Sep	877	882	878	871
Nov	890	896	890	884
Jan	896	905	897	892
Mar	904	908	904	900
May	915		912	908

Turnover: 921 (1427) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 11:Comp. daily 53.09 (52.81) 15 day average 52.73 (52.55)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	94.5	92.0	94.5	92.5
May	100.8	98.0	100.0	

Turnover 71 (32) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Jun	143.00	-	143.00

Turnover 25 (-) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
May	1590	1578	1590	1580
Jun	1470	1468	1470	1459
Jul	1320	1310	1320	1305
Oct	1415	1408	1415	1410
BFI	1576	1573	1576	

Turnover 191 (76)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
May	140.70	141.40	140.60	
Jun	140.55	141.90	141.40	140.45
Sep	107.90	108.40	107.90	
Nov	109.75	110.25	110.00	109.75
Mar	115.25	115.90	115.50	
May	117.75		118.00	117.80
Barley	Close	Previous	High/Low	
May	136.00	-	137.00	

Turnover: Wheat 241 (296), Barley 2 (-).
Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
May	114.7	115.0	114.8

Turnover:3 (38) lots of 3,250 kg

LONDON METAL EXCHANGE			(Prices supplied by Amalgamated Metal Trading)			
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 32,640 lots
Cash	1122.5-3.5	1131.5-2.5	1127.5	1127.5-8.5		
3 months	1145.5-6.0	1154-4.5	1152/1144	1150-1	1146-7	181,225 lots
Copper, Grade A (£ per tonne)						Total daily turnover 78,516 lots
Cash	1176-7	1164-5	1174	1174-4.5		
3 months	1192-3	1171-2	1203/1186	1190-90.5	1197-8	194,800 lots
Lead (£ per tonne)						Total daily turnover 2,559 lots
Cash	266-7	266.5-7.5		266.25-6.5		
3 months	275.5-6.0	276-6.5	277/275.5	275.5-5.75	275.5-6.0	20,548 lots
Nickel ($ per tonne)						Total daily turnover 9,834 lots
Cash	5920-30	5950-60	5930	5925-6		
3 months	5985-95	6015-25	6000/5970	5993-5	5960-70	48,868 lots
Tin ($ per tonne)						Total daily turnover 1,249 lots
Cash	5590-600	5615-25		5602-3		
3 months	5650-60	5675-80	5665/5650	5660-5	5640-50	9,231 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 7,277 lots
Cash	1009.5-10.5	1014-5	1013	1013-3.5		
3 months	1029-30	1033.5-4.0	1038/1029	1032.5-3.0	1029-30	63,520 lots

LME Closing £/$ rate:
SPOT: 1.5342 3 months: 1.5263 6 months: 1.5133 9 months: 1.5046

LONDON BULLION MARKET		
(Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	357.00-357.30	
Opening	355.40-355.80	
Morning fix	356.00	231.54
Afternoon fix	356.20	231.12
Day's high	357.70-358.10	
Day's low	355.40-355.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.55	6 months	2.43
2 months	2.51	12 months	2.41
3 months	2.48		

Silver fix	p/troy oz	US cts equiv
Spot	274.95	423.25
3 months	278.90	426.24
6 months	283.15	430.00
12 months	290.90	438.85

GOLD COINS		
	$ price	£ equivalent
Krugerrand	355.50-358.50	231.00-233.00
Maple leaf	367.70-370.05	-
New Sovereign	84.50-87.50	55.00-58.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jun	Sep	Jun	Sep
1075	60	90	3	11
1100	40	71	8	17
1125	23	55	16	26
Copper (Grade A)	**Calls**		**Puts**	
1800	56	100	35	70
1850	33	76	63	96
1900	17	56	97	125
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
850	47	70	22	43
900	23	46	48	69
950	10	30	85	103
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
700	10	29	36	41
725	5	20	56	57
750	2	14	78	76
Brent Crude	**Jun**	**Jul**	**Jun**	**Jul**
1850	-	68	-	12
1900	6	31	4	-
1950	-	13	-	-

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
May	361.2	356.7	0	0
Jun	361.8	357.3	362.5	356.7
Jul	362.7	358.2	0	0
Aug	363.6	359.0	365.0	358.5
Oct	365.3	360.6	364.5	360.8
Dec	366.9	362.1	367.0	361.9
Feb	368.4	363.7	366.0	364.5
Apr	370.0	365.2	367.5	366.5
Jun	371.6	366.8	369.5	367.1

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	385.5	382.0	386.0	381.0
Oct	384.0	380.5	384.0	380.0
Jan	383.5	380.0	0	0
Apr	383.2	379.7	383.2	380.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
May	437.1	425.1	438.0	425.5
Jun	437.9	426.0	0	0
Jul	439.2	427.3	439.5	425.0
Sep	442.0	430.0	443.0	428.0
Dec	446.2	434.0	447.0	432.5
Jan	446.7	434.5	0	0
Mar	450.5	438.2	446.0	437.5
May	453.3	440.9	443.0	443.0
Jul	456.4	444.0	0	0
Sep	459.8	447.4	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	81.65	79.05	81.65	80.50
Jun	81.95	79.25	81.90	80.75
Jul	82.25	79.60	82.35	80.70
Aug	82.50	79.85	0	0
Sep	82.70	80.10	82.75	81.50
Oct	82.95	80.35	0	0
Nov	83.25	80.70	82.50	82.50
Dec	83.55	81.00	83.30	82.20
Jan	83.70	81.15	0	0
Feb	83.95	81.40	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jun	20.30	20.34	20.39	20.27
Jul	20.51	20.51	20.58	20.48
Aug	20.60	20.62	20.67	20.56
Sep	20.69	20.68	20.72	20.66
Oct	20.74	20.71	20.73	20.71
Nov	20.68	20.72	20.74	20.68
Dec	20.66	20.71	20.73	20.69
Jan	20.67	20.69	20.68	20.66
Feb	20.68	20.67	20.68	20.68
Mar	20.64	20.64	0	0

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jun	55.60	55.91	55.95	55.55
Jul	56.05	56.25	56.25	56.00
Aug	56.60	56.82	56.65	56.60
Sep	57.55	57.80	57.70	57.55
Oct	58.60	58.73	58.70	58.55
Nov	59.50	59.63	59.60	59.55
Dec	60.40	60.50	60.55	60.35
Jan	60.85	60.85	60.90	60.80
Feb	60.60	60.53	60.70	60.60
Mar	59.00	59.08	59.50	59.10

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
May	870	885	883	883
Jul	902	910	908	892
Sep	929	939	935	921
Dec	968	975	974	960
Mar	1003	1008	1003	993
May	1026	1031	1017	1017
Jul	1046	1051	0	0
Sep	1063	1071	1063	1063
Dec	1093	1103	1092	1090
Mar	1127	1135	1122	1122

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
May	58.40	59.35	58.75	58.25
Jul	58.80	60.30	60.00	58.70
Sep	60.60	62.00	61.80	60.50
Dec	63.20	64.70	64.50	63.10
Mar	65.40	67.10	66.00	65.40
May	66.75	68.30	0	0
Jul	68.00	69.80	0	0
Sep	71.00	71.30	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	12.50	12.47	12.77	12.47
Oct	12.25	12.16	12.43	12.21
Mar	11.36	11.24	11.50	11.35
May	11.21	11.11	11.32	11.21
Jul	11.18	11.10	11.20	11.15
Oct	11.21	11.13	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	61.52	61.64	61.55	61.00
Oct	61.22	61.53	61.23	60.85
Dec	60.54	60.98	60.60	60.21
Mar	61.45	62.09	61.50	61.30
May	62.12	62.75	62.15	62.10
Jul	62.77	63.25	63.05	63.05
Oct	62.57	63.05	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	103.40	100.50	104.40	100.50
Jul	105.60	102.70	106.90	103.00
Sep	108.30	105.40	109.10	105.70
Nov	109.10	107.25	110.75	108.25
Jan	111.50	108.75	112.00	108.25
Mar	113.25	110.00	112.00	110.00
May	113.25	110.00	0	0
Jul	113.25	110.00	110.00	110.00
Sep	113.25	110.00	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)			
May 12	May 11	mnth ago	yr ago
1671.9	1663.1	1665.2	1589.9

DOW JONES (Base: Dec. 31 1974 = 100)				
	May.11	May.10	mnth ago	yr ago
Spot	119.74	119.61	121.34	118.00
Futures	120.67	120.90	124.06	118.84

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
May	602/2	603/6	610/0	600/0
Jul	600/4	604/4	609/4	599/0
Aug	600/6	604/4	609/0	599/6
Sep	599/6	604/4	608/0	599/0
Nov	602/4	607/4	611/4	601/0
Jan	609/0	613/4	617/0	608/0
Mar	614/4	619/4	623/0	613/4
May	616/4	621/0	624/4	616/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	21.17	21.28	21.44	21.16
Jul	21.39	21.44	21.69	21.37
Aug	21.50	21.53	21.75	21.50
Sep	21.61	21.64	21.90	21.61
Oct	21.73	21.74	21.98	21.72
Dec	21.96	22.00	22.30	21.92
Jan	22.06	22.08	22.29	22.05
Mar	22.24	22.25	22.48	22.29

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
May	192.4	193.3	194.2	190.7
Jul	190.7	191.8	192.9	189.0
Aug	190.0	191.7	192.5	188.5
Sep	189.7	191.9	192.5	189.2
Oct	190.8	192.2	192.8	188.5
Dec	192.0	193.3	193.9	190.0
Jan	192.4	194.0	194.0	191.5
Mar	193.0	194.2	194.3	192.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
May	229/4	225/4	229/0	226/4
Jul	232/6	229/0	233/0	229/6
Sep	237/2	233/4	237/6	234/4
Dec	242/4	238/2	243/4	239/4
Mar	248/2	244/6	249/0	246/0
May	253/4	248/4	253/0	250/4
Jul	256/2	252/2	256/4	254/2
Dec	250/0	247/6	251/0	249/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
May	363/0	353/6	363/4	356/6
Jul	297/4	293/4	298/2	295/0
Sep	299/6	296/4	300/4	298/0
Dec	310/2	307/2	311/4	309/0
Mar	315/6	313/0	316/0	314/6
Jul	312/0	310/0	312/0	311/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	76.625	77.125	77.200	76.550
Aug	73.725	73.950	74.050	73.625
Oct	74.350	74.400	74.500	74.150
Dec	74.425	74.350	74.500	74.175
Feb	73.825	73.775	73.900	73.700
Apr	74.900	74.850	74.900	74.650
Jun	71.875	71.700	72.000	71.750

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	51.325	50.950	51.475	51.000
Jul	50.800	50.425	50.925	50.450
Aug	48.700	48.250	48.725	48.150
Oct	43.450	43.125	43.575	43.100
Dec	44.400	44.275	44.650	44.350
Feb	44.250	44.100	44.400	44.200
Apr	43.275	43.000	43.350	43.250
Jun	48.650	48.550	48.650	48.650

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
May	43.150	42.125	43.500	42.700
Jul	43.050	41.975	43.450	42.500
Aug	40.850	39.900	41.350	40.400
Feb	41.800	41.500	42.450	41.600
Mar	40.850	40.400	40.850	0
May	41.125	40.500	41.125	0

LONDON STOCK EXCHANGE

Rate hopes spur fresh gains in shares

By Terry Byland, UK Stock Market Editor

INTEREST RATE cuts in Germany and elsewhere in Europe provided a favourable background for a UK stock market featured yesterday by the successful reception for the pricing of the Zeneca rights issue which triggers the demerging of ICI. Last-minute fears that the Zeneca issue might bring surprises proved unfounded and the terms and size of the rights offer were comfortably in line with the market's original expectations.

Equities were in good form from the opening, helped by Wall Street's strength overnight and led forward throughout by a good premium on the FT-SE 100 Index June future contract. A larger cut than expected in the Bundesbank's 14-day repurchase rates, widely regarded as the precursor to a reduction in Lombard and discount rates next week, strengthened hopes that a beleaguered UK government can be bounced into lowering domestic base rates.

The FT-SE 100 closed 24.7 points ahead at 2,860.8, just below the best of the session. In late trading, London brushed off a sluggish opening to the new session on Wall Street, which was 5.2 Dow points off in London hours.

Trading volume increased to 773.6m shares, swollen by good but not frenzied activity in the various ICI/Zeneca instruments – conventional ICI shares, and grey market dealing in post-merger ICI, in Zeneca ex-rights shares and in Zeneca nil-paid rights. Investors appeared to be moving towards the conventional ICI shares rather than Zeneca, the bioscience and pharmaceutical company to be demerged shortly.

The rest of the market was relieved to see the ICI/Zeneca rights deal out in the open safely, but must still brace itself for the sale of further BT shares by the British government and also the monthly funding of government bonds.

Although some trading houses reported a healthy input of overseas cash into the London market yesterday, others were not completely convinced. This week has seen a successful rally in UK stocks, in part because investors hope that the poor electoral showing of Mr John Major's government in last week's local and by-elections will encourage it to cut base rates.

However, even after yesterday's performance, the Footsie remains about half-way through what has been identified as the current trading range and may not face a final test of confidence unless it clears the 2,900 mark.

Second-line stocks, which suffered much less in last week's sell-off, have also fared better than the Footsie shares this week.

Yesterday, the FT-SE Mid 250 Index gained 13.7 points at 3,145 and is now within 10 points of its all-time peak.

Retail, or customer, volume in equities, which is regarded by fund managers as the most convincing guide to the market's health, has remained satisfactory, if not exciting, over the past week. On Tuesday, Seaq trading of 676.8m shares was worth £1.29bn in retail business.

Strong performances among bank and oil shares led the blue chip sectors ahead yesterday. Selective US demand was seen, although London traders somewhat over-anticipated this during the first half of the session and were caught out briefly when Wall Street proved slow to follow through after its 25-point gain on the previous day.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:	Apr 19	May 10	May 24
Option Declarations:	May 6	May 20	Jun 3
Last Dealings:	May 7	May 21	Jun 4
Account Day:	May 17	Jun 1	Jun 14

*New time dealings may take place from 8.30am two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100 2860.8 +24.7 | FT-SE MID 250 3145.0 +13.7 | FT-A ALL-SHARE 1407.78 +10.34

	May 12	Day's change %	May 11	May 10	May 7	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2860.8	+0.9	2836.1	2829.8	2793.7	2720.5	6.40	3.96	19.73	41.01
FT-SE Mid 250	3145.0	+0.4	3131.3	3125.8	3109.5	2807.0	6.05	3.70	21.13	34.52
FT-SE-A 350	1422.4	+0.8	1411.4	1408.4	1392.9	1334.8	6.32	3.90	20.03	19.33
FT-SE SmallCap	1596.20	+0.2	1592.28	1588.20	1585.31	-	4.55	3.57	31.40	17.82
FT-SE SmallCap ex Inv Trusts	1607.32	+0.2	1604.26	1599.51	1596.50	-	5.03	3.77	29.31	18.63
FT-A ALL-SHARE	1407.78	+0.7	1397.44	1394.42	1379.45	1319.30	6.21	3.88	20.49	18.92
1 CAPITAL GOODS(213)	985.59	+0.9	978.44	975.22	968.69	924.03	4.87	3.91	27.65	14.35
2 Building Materials(27)	1099.36	+1.8	1079.65	1078.25	1084.98	1114.27	4.68	4.41	28.34	18.33
3 Contracting, Construction(29)	974.75	+0.4	970.97	966.66	964.07	1055.91	2.00	3.40	80.00†	11.57
4 Electricals(15)	2891.10	+2.1	2831.32	2810.57	2792.54	2667.84	5.17	4.67	24.80	65.13
5 Electronics(37)	2661.28	+0.6	2645.33	2648.08	2622.52	2080.64	5.95	3.00	21.24	19.74
6 Engineering-Aerospace(7)	373.44	+0.9	370.04	372.19	372.03	397.16	‡	3.85	‡	4.81
7 Engineering-General(51)	569.15	+0.6	565.55	562.60	560.31	561.69	6.78	3.71	18.73	7.08
8 Metals & Metal Forming(11)	420.29	+1.6	413.73	414.13	413.13	374.86	4.11	2.93	34.93	0.66
9 Motors(18)	400.15	-0.2	401.07	402.02	402.35	391.66	5.07	5.51	28.20	9.52

Zeneca pricing dominates

THE SWAN song for ICI in its existing form, marked yesterday by the pricing of the £1.3bn demerger rights issue, saw investors apparently moving away from Zeneca, the new bioscience operation which is being spun off. While shares in existing ICI shares progressed gracefully, this performance masked some brisk position-taking.

Turnover in the existing shares of the company was, at 6.4m, far larger than normal but the share price rise of 22 to 1285p merely countered the previous day's fall.

The unofficial market, sanctioned by the stock exchange and now involving 17 marketmakers, saw a shift of emphasis. ICI-ex demerger shares were actively bought up from 569p to 609p on turnover of 6.1m. Zeneca ex-rights were sold down 18 to 664p with 5.1m traded and the Zeneca nil-paid shares fell 20 to 66p with volume of 3.8m.

The Zeneca side of the trading had prompted some confusion because the original "grey market" set up by Salomon Brothers on April 26 had been trading Zeneca cum-rights rather than ex-rights. Consequently, the heralded Zeneca price of 600p a share seemed more generous to some than it actually was.

There were also some cynical comments that the idea of a one-for-three cash call had been so thoroughly floated by lead broker S.G. Warburg that when the terms came in at 5-for-16 the relative benefits encouraged buyers.

Ultimately, the consensus was that new buyers were not the chief factor in the market yesterday. Marketmakers, arbitraging between the old and new prices, and institutions hedging underwriting commitments were more influential in the day's dealings.

Sainsbury hit

Final results from J. Sainsbury came in at the bottom end of the market range and this, together with a swathe of moderate downgrades, led the shares down. Food retail specialists' attention was also focused on the level of earnings growth the supermarket group was likely to achieve in the next 12 months. After a sharp increase in recent years, Sainsbury, in common with other supermarket groups, has shown a marked slowdown. Bears of the sector regard this as a major sea change, with food retailing in a mature stage and unlikely to repeat the recent earnings growth success. One cautious analyst concluded: "Sainsbury shares are in for a dull time."

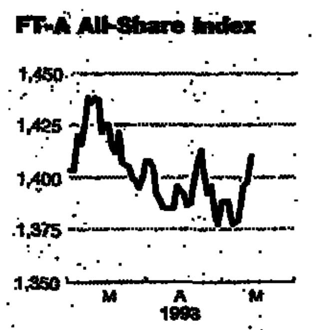
However, the stock still has its supporters. Mr Andrew Burnett at NatWest Securities, which reiterated its positive stance yesterday, said the company had the potential for continued growth through its dominant position and its ability to "turn the screw on the competition". Sainsbury shares ended the day 14 down at 467p in turnover of 6.7m. Most brokers brought their forecasts back to around £830m for next year.

Rolls contract

Shares in aero engine group Rolls-Royce leapt forward in the last few minutes on news that Continental Airlines, which recently emerged from Chapter 11 bankruptcy protection, had placed a $4.5bn order for 92 Boeing aircraft, including a high proportion powered by Rolls-Royce engines.

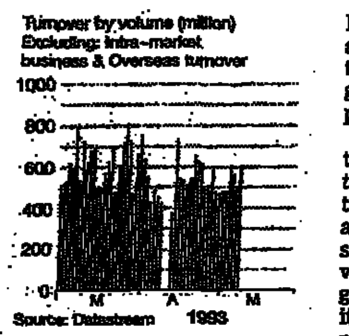
The firm order includes 25 Boeing 757s (with an option on another 25) to be powered by Rolls-Royce engines, and the company put the potential value to the British aero engine group at £375m. The shares started moving ahead just after lunch, although analysts initially ascribed that interest to a positive presentation from the company at its industrial power division on Tuesday. However, there were suggestions that the early demand may have come from US buyers already aware of the impending contract announcement. With delivery set to begin in 1994, analysts expect a spate of upgradings of Rolls-Royce profits for next year. The shares closed 5 better at 138½p. Turnover was 3.2m.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business & Overseas turnover



Source: Datastream 1993

Rank upset

Nervousness ahead of today's annual meeting of the board with City analysts upset Rank Organisation and the shares tumbled 14 to 696p, although volume was weak. One leading securities house also took the opportunity to turn negative ahead of the meeting, believing that some poor overseas trading news was likely to be disclosed.

This is likely to include continuing concern over the Japanese photocopier market. One dealer said that the shares' decline yesterday had been triggered because a line of stock was on offer at 700p and buyers were unwilling to commit themselves ahead of the meeting.

Oils strong

Oil majors, particularly Shell Transport, performed strongly with investors buying on hopes of asset disposals. There was also a feeling that US investors, who have been keenly picking up domestic bulk chemicals shares with a view to cyclical recovery, are now moving further afield.

About 20 per cent of Shell's asset base is in chemicals, although NatWest Securities argues that most of the company's exposure is in Europe where the industry's problems are far from over. The shares gained 11 to 592p on turnover of 11m. BP, dragged up by the price of its US traded ADRs and its rival's perfomance, rose 7¼ to 316¼p with hefty turnover of more than 14m shares.

HSBC lifted 19 to 606p in response to a strong Hong Kong market.

Rothmans International lifted 13 to 661p on the back of a steady dollar and a realisation that the company was not greatly exposed to US tobacco price wars.

Turnover in international trading group Lonrho jumped to 12m on continued speculation of impending disposals and a strong metals sector. The shares gained 6 to 114p. One view is that South African group Gencor may wish to lift its stake in Lonrho's platinum mining interests in South Africa in which it currently holds a 27 per cent interest.

Building materials group Redland improved 13 to 506p as UBS upgraded profit and earnings forecasts on the basis that the UK construction industry appears to be recovering faster than expected.

The results season in the drinks sector got into prelimanry swing with Greenalls Group reporting figures at the bottom end of market forecasts. The shares, which have performed well in recent weeks, declined 13 to 414p. Kleinwort Benson moved from a buy to a hold.

Whitbread was the subject of proift-taking ahead of its results next week, the shares shedding 9¼ to 495p. Good figures from LVMH, the French luxury goods group, lifted Guinness 14 to 489p. The two companies have a 25 per cent cross-holding.

Transport Development Group eased 8 to 241p after several brokers trimmed forecasts following a meeting with the company. UK airports operator BAA added 5 to 755p after reporting a 4.8 per cent increase in traffic for the month of April against the same period a year earlier.

Recommendations from Salamons and Smith New Court were said to have been the reason for the rise in BICC, up 11 at 375.

A positive annual meeting boosted TI Group and the shares improved 12 to 337p. A warning of an operating loss for the first half at Simon Engineering sent the shares tumbling 26½ to 73½p.

A sense of relief greeted results from Body Shop, the anticipated fall in profits to £21.5m from 25.2m at the top end of forecasts. The shares, which have underperformed recently, rose 6½ to 204½p.

Edible oils group Acatos and Hutcheson jumped 8 to 219p in late trading as it was announced that a mjor shareholder had sold its entire 16.8 per cent stake.

MARKET REPORTERS: Christopher Price, Peter John, Joel Kibazo.

■ Other statistics, Page 23

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (160). AMERICANS (1) Pennzoil, CANADIANS (3) Amer. Barrick Res., Echo Bay Mines, BANKS (6) Abbey Natl., Mitsui Tst. & Bnkg., Royal Bk. of Scot., BLDG MATLS (10) Blue Circle, Brit. Dredging, CRH, Hepworth, Meyer, RMC, Redland, Rugby, Sharpe & Fisher, Unigroup, BUSINESS SERVS (4) BNB Res., Gardiner, Hutchison Whampoa, Time Prods., CHEMS (2) BTP, ICI, CONGLOMERATES (4) Cannon St. Invs., Lonrho, Resco, Wassall, CONTG & CONSTRCN (6) Ashtead, Banner Homes, …

FINANCIAL TIMES EQUITY INDICES

	May 12	May 11	May 10	May 7	May 6	Year ago	* High	* Low
Ordinary share	2231.1	2215.2	2217.8	2189.4	2188.5	2136.2	2289.5	2124.7
Ord. div. yield	4.18	4.19	4.19	4.24	4.23	4.28	4.52	4.07
Earning yld % full	6.26	6.31	6.30	6.36	6.37	6.07	6.38	5.79
P/E ratio net	19.78	19.63	19.66	19.40	19.44	20.88	22.04	19.40
P/E ratio nil	18.40	18.35	18.38	18.14	18.17	19.23	20.30	18.14
Gold Mines	150.1	150.7	153.8	151.0	149.9	107.7	153.8	80.0

*for 1993. Ordinary share index since compilation: high 2289.5 10/3/93 – low 49.4 26/6/40. Gold Mines index since compilation high: 734.7 15/2/83- low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2222.0	2225.2	2230.8	2229.5	2229.5	2231.1	2228.5	2227.8	2231.4	2231.7	2222.0

Volume	May 12	May 11	May 10	May 7	May 6	Year ago
SEAQ Bargains	28,387	28,290	29,940	33,007	28,181	28,677
Equity Turnover(£m)†	-	1292.9	1083.3	1190.0	1374.4	1154.8
Equity Bargains†	-	32,776	33,013	37,140	32,173	35,938
Shares traded (ml)†	-	814.0	504.7	568.8	618.1	522.2

† Excluding intra-market business and overseas turnover.

London report and latest Share Index Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

LONDON SHARE SERVICE

BRITISH FUNDS

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

THE REDUCTION of interest rates in several European countries led to good buying in the derivatives, sending the futures contract sharply ahead and boosting volume in traded options, writes Joel Kibazo.

The first trade in the June FT-SE 100 future contract was struck at 2,851 and buying said to have come from NatWest Securities and UBS drove it forward in the first hour. A slight lull then followed before the surprise announcement of a cut in the Bundesbank's 14-day "repo" rates once again propelled it forward.

The interest rate reductions in the Netherlands and Belgium in the afternoon only served to increase demand, which eventually led to a slight squeeze. The day's high of 2,880 was reached just before the market close at around 4pm, and following some profit-taking June ended at 2,877, up 33 from the previous close and some 11 points above its fair value premium to cash of about 5. Turnover was 11,306 lots.

Volume in traded options rose to a hefty 40,729 contracts. Dealings in the FT-SE 100 option were particularly heavy, reaching 15,160 lots, but that in the Euro FT-SE option was a modest 2,668. Glaxo was the busiest stock option with 3,833 trades, followed by J. Sainsbury at 2,188. Dealings began in seven new stock options: Royal Insurance and NatWest were particularly well received, trading 1,886 and 1,403 respectively.

Announcement to the holders of warrants "BBC" 1990-96 issued by ABB Employee Equity B.V. Amsterdam, Netherlands

The Annual General Meeting of shareholders of BBC Brown Boveri Ltd, Baden, Switzerland, held on May 6, 1993 has decided to

(i) make a split (1:5) of each of its Series B Registered Shares with a nominal value of SFr 100 into 5 new Registered Shares each with a nominal value of SFr 20;

(ii) make a split (1:5) of each of its Series A Bearer Shares with a nominal value of SFr 500 into 5 new Bearer Shares each with a nominal value of SFr 100; and

(iii) to exchange each of its Participation Certificates with a nominal value of SFr 100 for one new Bearer Share with a nominal value of SFr 100.

As a consequence and in accordance with Condition 8 of the BBC warrants each warrant entitles the holder thereof to purchase 1,01 BBC Bearer Share with a nominal value of SFr 100 at a price of SFr 1016.20 per share. This change is effective from May 11, 1993.

May 11, 1993

ABB Employee Equity B.V. BBC Brown Boveri Ltd

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		17¾xd	+⅛	20⅞	15⅜	14,969	2.4
Allegheny & W	♥	494p	—	571p	399p	256.7	3.8
Amdahl		349p	+6	691p	302¾p	381.9	1.8
Amer Cyanamid		33¾	-⅛	38⅝	31⅛	2,997	3.1
Amer Express		18⅞xd	+⅞	19½	14⅞	8,913	3.4
Amer T & T		36⅞xd	+⅛	40⅞	33¼	48,458	2.3
Ameritech		49¾	-⅛	52¾	46	21,180	4.8
BankAmerica		30⅝xd	+½	35⅞	27⅛	10,676	2.9
Bankers NY		47¼xd	+1⅛	51⅜	42⅝	3,782	4.2
Bell Atlantic		34¾	+½	39⅛	32⅛	15,049	4.8
BellSouth		34⅜	+⅛	39⅞	32⅝	16,981	5.1
Bethlehem Steel	♥	12⅞xd	+⅞	13⅞	10	1,171	-
Bowater		1257pxd	-88	1682p	1335p	481.7	1.9
CPC		28⅞xd	—	34⅝	26	4,373	2.8
Cadiz Land Inc	♥	71½p	—	115p	53p	-	-
California Engy		1369p	—	1479p	1086p	247.2	-
Chase Manhattan		20¼xd	+⅛	24½	17⅞	3,141	3.8
Chrysler		27⅞xd	+⅜	28⅞	21¼	8,144	1.4
Citicorp		18⅛xd	+⅞	20⅞	13⅞	6,717	-
Colgate-Palm		40⅝xd	+1⅞	45⅝	35¼	6,406	1.9
Cont'l Bank		1577p	+44	1677p	1278p	1,593	2.4
Dana		32⅞xd	—	34⅞	29⅞	1,489	3.1
Data General		619p	-14	991p	593p	168.3	-
Decora Inds	♥	128p	+3	149p	109p	-	-
Dun & Brad		39⅞	+⅛	42⅝	37⅛	6,996	4.0
Eaton		57¼	-⅛	59⅝	50⅝	1,994	2.4
Echlin		16⅞xd	+⅞	18⅞	15⅞	942.1	2.7
FPL		24⅞xd	+⅞	27⅞	23¼	4,930	6.2
Ford Motor		35¼xd	-⅛	38⅞	28⅞	17,460	1.8
Gen Elect		60½xd	-½	62⅞	53⅞	51,869	2.6
General Host	♥	593p	+10	729p	566p	-	3.8
Gillette		34⅞xd	+⅞	42⅝	31½	7,622	1.5
Hasbro		20⅞	—	20⅞	20⅞	1,619	0.7
Honeywell		22⅞xd	+⅞	24⅞	20⅞	3,126	2.5

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

	Price	+ or -	1993 high	low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv	195	+3	201	183	3.0	233.2	16.3
Warrants	44	—	49	38	–	–	–
Scot Mortgage	180	+½	201	178	2.7	220.6	13.9
Scot National Inc	96½	+½	95½	85	10.5	–	–
Cap	23	+1	28	16	–	61.1	64.0
Stepped Pf	152¼	—	155¼	150¾	5.0	–	–
Zero Div Pf	208½	+½	212	207	–	–	–
Warrants	3½	—	5	3	–	–	–
Scot Value	79½	—	79¼	71	2.9	78.5	0.9
Sec Alliance	1433	+13	1503	1380	3.2	1598.1	10.4
Second Consid	120	—	121	88	–	163.6	34.7
Second Market	325	-2	328	256	0.8	354.0	8.2
Sec Tst Scot	80½xd	+½	84½	74½	5.8	83.4	3.8
Select Assets	127	—	130	109½	1.2	169.6	28.7
Eq Ind Seri	132	+2	134	128	4.0	–	–
Eq Ind Serii	132	+2	134	128	4.0	–	–
SHIRESCOT	121	—	123	104	5.5	122.9	1.8
Shires	255	+1	262	231	9.8	250.5	-1.6
11pc Cv Ln '03/04	£126	—	£131½	£115½	8.7	–	–
Stern Select	129	—	136	97	0.2	144.8	11.3
Warrants	35	—	38	15	–	–	–
Smaller Cos	111	—	111	78	2.9	113.7	2.8
Warrants	33	+1	33	14	–	–	–
Sphere Inc	20	+½	21½	14	16.4	33.0	40.9
Zero Div Pf	85½	—	85¾	80¼	–	–	–
Sumit	59	—	60	36	3.0	89.9	34.4
TR City of Lon	134½	+½	140¼	128	4.4	131.7	-1.9
TR Euro Growth	100	—	109	76	1.7	115.5	13.4
Ptg Sub	55	—	58	27	3.1	–	–
TR Far East Inc	132	+1	139	112	4.3	132.8	0.2
Warrants	37	—	39½	22	–	–	–
TR High Inc	110	—	118	102	6.8	114.4	3.8
Sub	28	—	31	25	6.5	–	–

MERCHANT BANKS

	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Prf	96½xd	—	109½	93	12.1	10.4	–
9¼pc Non-Cum Prf	116¼xd	+½	127½	113	48.5	10.6	–
Close Bros	341	+3	345	250	189.9	3.5	15.2
Hambros	341	-1	358	243	683.7	5.1	15.1
7½pc Cv Pf	141	—	149½	111½	211.5	6.6	–
Joseph (L)	358	—	383	313	18.8	5.5	–
Kleinwort Benson	484	+15	495	312	829.2	5.0	14.0
Rea Bros	42	—	47	39	18.5	1.5	44.8
Schroders	948xc	+5	987½	467½	862.7	1.5	16.9
N/V	793xc	+3	812½	387½	222.9	1.7	15.8
Singer & Fried	67½	+3½	67½	48	129.9	4.8	ф
Warburg (SG)	664	—	674	528	1,423	3.4	19.7
6pc Cv Pf	223	-1	227	195	94.9	3.4	–
Wintrust	205	—	215	198	17.4	5.7	7.9

METALS & METAL FORMING

	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's	P/E
ASW	230	—	233	81	153.9	3.3	–
Apollo Metals	111	—	120	84	13.1	3.8	20.3
Ash & Lacy	150	—	170	143	41.5	5.0	16.3
Barrett (H)	7¾	—	7	7	3.04	‡	16.2
Billam (J)	224	—	309	129	3.63	2.8	ф
Brit Steel	95	+1½	97	54	1,920	1.3	–
CI	25	—	28	17	21.8	5.0	ф
Castings	160	—	167	158	35.9	3.1	11.8
Chamber & Hill	140	—	146	113	10.2	5.4	8.4
Cohen (A)	350	—	400	350	8.40	‡	–
Cook (Wm)	176	+2	177	120	38.5	‡	11.8
Cooper (F)	57	+5	60	43	20.2	‡	63.3

INVESTMENT COMPANIES

MEDIA

MOTORS

MISCELLANEOUS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

OIL & GAS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

	Price	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Europa Mins	23	—	23	15	11.1	–
Glencar Expl Ir	12	—	12	6	2.22	–
Greenwich Res	15¼	+¼	18½	5	11.8	–
Hemlo Gold C$	25⅛	—	25½	23½	495.9	1.8
Ivernia West Ir	55	+2	57	31	27.7	–
Kenmare	11½	—	13½	8	11.8	–
Mallinga Res	15	—	25½	14	1.68	–
Navan Res Ir	37	—	38	25	4.98	–
5pc Ln Notes	30¼	—	34	25	5.15	–
Oryx Gold	62⅞	—	71	47	–	–
Ovoca Res Ir	3½	—	3½	3½	0.24	–
RTZ	625	+13	709	607	6,275	4.2
Vaceya	5¼#	—	5¼	2¼	3.08	–

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is *indicated after the name.*

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted *for a dividend tax credit of 20 per cent and allow for value of declared* distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ф Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
! Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment.
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point: a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298422

Standard Life Tst Mngmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

State Street Unit Trust Mngmt Ltd (1400)F
20 Birchin Lane, London EC3V 9AD 071-626 1599

Stewart Ivory Unit Tst Mgrs Ltd (1200)H
45 Charlotte Sq, Edinburgh 031-226 3271

Funds in Court*

	Bid Price	Offer Price	+ or -	Yield Grs
Capital Apr 1	549.98	584.12	—	3.73
Gross Apr 1	202.20	202.87xd	—	10.10
High Yield Apr 1	333.75	330.39	—	7.73

* Restricted to monies under Court control

Sewitt (John) Unit Mngmt Ltd

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd ‡

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

* Available only to Local Authorities

M & G Securities Ltd

INSURANCES

OTHER UK UNIT TRUSTS

[illegible]

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Provident Mutual Life Assc. Assn. - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Managed Ord	543.2	571.8	+2.3	-
Managed Init	385.5	405.8	+1.7	-
Equity Ord	845.0	889.5	+7.8	-
Equity Init	599.6	631.2	+5.4	-
Pen Ind Lkd Gilt Ord	217.1	228.6	—	-
Pen Ind Lkd Gilt Init	160.5	169.4	—	-
Overseas Equity Ord	372.8	392.8	-0.8	-
Overseas Equity Init	269.5	283.7	-0.6	-
Property Ord	286.7	301.8	+0.1	-
Property Init	203.4	214.1	—	-
Fixed Interest Ord	332.8	350.3	+0.3	-
Fixed Interest Init	236.1	248.5	+0.1	-
Deposit Ord	286.4	301.5	+0.1	-
Deposit Init	203.2	213.9	—	-

Prudential Assurance Co

Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Prufund				
Managed May 12	298.0	310.5	+1.8	-

Prudential Corporate Pension Funds

1 Stephen St, London W1P 2AP 071-548 3281

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Managed Funds				
Discretionary May 5	£224.23	231.39	—	-
Equity May 5	£251.84	260.40	—	-
International May 5	£37.01	38.01	—	-
Intl Bond May 5	£19.45	19.70	—	-
Fixed Int May 5	£121.28	122.70	—	-
Index Linked May 5	£88.92	90.04	—	-
Property May 5	£109.59	115.69	—	-
Cash May 5	£33.28	33.28	—	-
Pru-Linked Retirement Plan				
Managed May 5	530.70	552.80	—	-
Cash May 5	301.70	314.30	—	-
Prudential Pensions Investment Account				
Pens Mngd	215.70	231.60	+1.50	-
Pens Mngd A	96.80	101.70	+0.60	-
Pens UK Eq	368.50	386.60	+3.60	-
Pens Intl	268.00	287.30	+0.40	-
Pens Global Eqty	122.10	128.60	+1.00	-
Pens Fixed	272.50	287.80	+0.40	-
Pens Index Lk	224.40	236.90	—	-
Pens Property	89.30	94.00	—	-
Pens Cash	197.10	207.60	+0.10	-
Money Purchase Plan				
Discretionary (z)	122.20	131.10	+0.20	-
Equity (z)	125.30	134.80	+0.30	-
International (z)	120.60	129.00	+0.10	-
Global Equity (z)	123.50	132.80	+0.20	-
Intl Bond Fab (z)	137.10	144.20	-0.60	-
Fixed Interest (z)	135.70	142.70	—	-
Index Linked (z)	125.50	132.10	-0.20	-

Scottish Amicable - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Building Society	172.7	181.8	—	-
Managed (Init)	230.6	242.8	+1.10	-
Managed (Acc)	454.2	478.2	+2.20	-
Equity (Init)	260.9	274.7	+2.10	-
Equity (Acc)	514.1	541.2	+4.30	-
Property (Init)	143.3	150.9	-0.10	-
Property (Acc)	282.4	297.3	—	-
International (Init)	230.1	242.3	-0.40	-
International (Acc)	453.4	477.3	-0.80	-
Fixed Interest (Init)	221.2	232.9	+0.20	-
Fixed Interest (Acc)	436.7	459.7	+0.30	-
Cash (Init)	154.1	162.3	—	-
Cash (Acc)	303.8	319.8	—	-
Others				
Capital Guarantee Bond	98.9	104.2	+0.60	-

Scottish Equitable Life Assce. Soc.

28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	221.7	233.3	+0.6	-
UK Equity	214.8	225.7	+2.3	-
International	221.8	233.8	+0.3	-
American	229.3	241.4	+0.9	-
European	206.8	217.6	+0.4	-
Japan	236.8	249.2	-4.1	-
Pacific	308.4	324.6	+2.5	-
Technology	288.8	303.8	-1.9	-
Fixed Interest	167.0	175.8	+0.1	-
Indexed Linked	148.7	156.5	-0.1	-
Foreign Bond/Currency	215.8	227.2	+0.4	-
Cash	171.888	181.011	+0.021	-
Ethical	116.6	122.7	+0.3	-
Pens Mixed	631.9	665.2	+1.3	-
Pens UK Equity	719.7	757.6	+6.7	-
Pens International	677.8	713.3	-1.7	-
Pens American	230.8	243.0	+0.6	-
Pens European	237.4	249.9	+1.2	-
Pens Japan	279.2	293.9	-5.9	-
Pens Pacific	347.8	365.8	+5.3	-
Pens Fixed Interest	332.6	350.1	+0.2	-
Pens Index Linked	184.0	193.7	—	-
Pens Cash	273.346	287.735	+0.032	-
Pens Property	217.24	228.67	—	-
Pens Ethical	148.3	156.1	+0.3	-
Edinburgh Inv	330.3	347.6	+1.2	6
Baillie Gifford Japan	228.0	240.0	-0.1	-

Scottish Life Investments

19 St Andrew Square, Edinburgh 031-225 2211

	Bid Price	Offer Price	+ or -	Yield Gross
Property	173.6	182.8	+0.1	-
UK Equity	318.5	335.4	+3.1	-
American	224.6	236.5	+0.6	-

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

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JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$9.548	10.051	+0.072	0.0
Hong Kong	$28.331	29.822	+0.443	0.4
Indonesia	$9.070	9.524	-0.090	0.6
Korea	$10.797	11.365	-0.016	0.0
Malaysia	$17.742	18.676	-0.188	0.0
Philippines	$17.265	18.149	-0.938	0.0
Singapore	$12.241	12.885	+0.227	0.0
Thailand	$19.591	20.630	+0.075	0.0
South East Asia	$24.464	25.752	+0.091	0.0
US Dollar Liquidity	$9.656	10.034	—	0.8
Cater Allen Investment Management (CI)				
CA Gilt Income	£5.85	6.12	—	16.34
CA Equity Gwth	£4.55	4.87	—	2.21
Citibank (CI) Ltd "Citifunds"				
Short term Investment Funds				
Irish £ May 13		134.8218	+0.539	—
Equity Funds				
Japan Equity May 13		39.7987	-0.229	—
US Sm Hlth May 10		$21.2585	+1.402	—
US Ent Tech May 10		$24.1370	+1.578	—
Offshore May 10		$32.6457	+2.245	—
Bond Funds				
HYB (A) May 10		393817.139	+107.989	—
Special Assets (B) May 4		FFr11423.455	+47.988	—
Citibank N.A.				
Libra 2000 Feb 26		399.62	-2.45	—
Libra 2000 Intl Feb 26		999.62	-2.45	—
Coutts & Co (Jersey) Fund Managers Ltd				
Coutts Money Market Fund Ltd				
Dollar Class		$38.5126	—	1.87
Sterling Class		£27.5481	—	4.98
D-Mark Class		DM99.1647	—	[illegible]

LUXEMBOURG (SIB RECOGNISED)

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
CMI Asset Management (Luxembourg) SA						
203 route d'Arlon, L-1150 Lux 010 352 458925						
CMI Managed Portfolio Investment Company (u)						
Safeguard Portfolio F.	£-		1.222	1.312	[illegible]	—
Growth Portfolio F.	£-		1.101	1.173	[illegible]	—
Enterprise Portfolio F.	£-		1.052	1.120	[illegible]	—

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

LUXEMBOURG (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Wells Fargo U.S. ?? Fund				
Wells Fargo A Shs (z)		$12.61	+0.01	—
Wells Fargo B Shs (z)		$13.00	+0.05	—
Worldwide Limited				
NAV Mar 31		$82.32	—	—
Xiphias International Investment Fd Ltd				
Xiphias Int US$ Acc		$1.2498	—	—
Xiphias Int ECU Acc		Ecu1.2184	—	—
Xiphias Int ECU Dis		Ecu1.0928	—	—
Yamaichi Capital Mngmt (Guernsey) Ltd				
Thai Inv Fund		$12.86	—	—

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. u Designated in Luxembourg as a UCITS (Undertakings for Collective Investment in Transferable Securities). x Offered price includes all expenses except agent's commission. z Previous day's price. §§ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increases. xd ex dividend.

(**) Funds not SIB recognised. The regulatory authorities for these funds are: Guernsey: Financial Services Commission; Ireland: Central Bank of Ireland; Isle of Man: Financial Supervision Commission; Jersey: Financial Services Department; Luxembourg: Institut Monétaire Luxembourgeois.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar firmer on inflation data

THE DOLLAR remained firm against the D-Mark in European trading yesterday after US inflation figures turned out to be higher than expected and the Bundesbank again eased monetary policy, *writes James Blitz*.

The US currency has been in the throes of a good recovery since the start of the week, after the market took the view that last Friday's non-farm payroll figure was not as bad as some dealers had anticipated.

Yesterday, the dollar peaked at DM1.6135 after US producer prices rose 0.6 per cent in April against market expectations of a 0.3 per cent gain. It later closed in London at DM1.6115, up nearly ½ a pfennig on the day.

The higher inflation figure underlined the belief of some dealers that US short-term interest rates have bottomed out at about 3 per cent, and that the fed funds rate could rise before the end of the year.

Mr Paul Chertkow, global currency strategist at UBS in London, believes that today's US retail sales figures for April will be watched closely. "We need a good retail sales figure to show that, by June, there will be a run down of the large inventories made in the first and second quarters of this year," he said. The market's forecast is for a rise of around 0.6 per cent on the month.

Mr Chertkow believes that increasing signs of a pick up in the US economy will set the scene for a rise in the fed funds rate by ½ a percentage point after the summer. His 3-month forecast for the dollar is DM1.72.

The Bundesbank yesterday surprised dealers by cutting its repo rate by 11 basis points to 7.60 per cent for both 14-day and 28-day funds.

The move helped to alleviate pressure on the Danish krone in the run-up to Tuesday's referendum on the Maastricht treaty. The krone closed yesterday at -46 percentage points of divergence against its central Ecu rate, compared to around -50 percentage points at the start of the week.

However, sterling lost some of the ground it had made against the German currency on Tuesday, closing down 1 pfennig on the day at DM2.4700.

A dealer at one of the major London counterparties said there had been strong selling of the pound by the Bank of England at DM2.4800. The UK authorities still need to build up reserves following the expulsion of sterling from the exchange rate mechanism last September.

The peseta also came under very strong selling pressure in Europe yesterday, although the Bank of Spain again appeared able to hold the exchange rate through intervention.

There were reports that Spanish banks were acting as proxies for the authorities, by selling dollars and buying the D-Mark to help build up Spanish reserves. The peseta closed at Pta73.56 to the D-Mark from a previous Pta73.35.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 12	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Irish Punt	0.809996	0.804198	-0.72	1.91	38
Dutch Guilder	2.20045	2.19465	-0.26	1.44	20
Belgian Franc	40.2802	40.2357	-0.11	1.29	12
D-Mark	1.95294	1.95585	0.15	1.03	-1
French Franc	6.54988	6.59500	0.69	0.48	-31
Portuguese Escudo	180.624	181.956	0.74	0.44	-12
Spanish Peseta	142.150	143.682	1.08	0.10	-19
Danish Krone	7.44934	7.53697	1.18	0.00	-47

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. (17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

£ IN NEW YORK

May 12	Latest	Previous Close
£ Spot	1.5320 - 1.5330	1.5405 - 1.5415
1 month	[illegible]	[illegible]
3 months	[illegible]	[illegible]
12 months	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5335	1.5288	1.5224	1.5127	1.4954

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls June	Calls September	Calls December	Puts June	Puts September	Puts December
116	1.46	1.78	-	0.04	0.64	-
117	0.59	1.17	1.29	0.20	1.02	-
118	0.17	0.72	0.88	0.76	1.58	-
119	0.03	0.40	0.56	-	-	-
120	0.01	0.21	-	-	-	-
Open int	149,831	102,570	22,188	161,690	89,084	12,782

Estimated volume 48,063 † Total Open Interest 558,380

† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	Unibank plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk.	6	●United Bk of Kuwait	6
Barclays Bank	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Western Trust	6
●Brown Shipley	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
CL Bank Nederland	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
Citibank NA	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk.	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Surprise repo rate cut

EUROMARK futures rose sharply across the board yesterday after the Bundesbank surprised financial markets by cutting its repo rate more aggressively than had been expected, *writes James Blitz*.

The Bundesbank cut the repo rate, which sets the cost of lending short-term funds to commercial banks, by 11 basis points to 7.60 per cent on both 14-day and 28-day maturities

With German call money hovering at around 7.73 per cent at the start of the day, there had been little expectation of a significant easing in policy, since official interest rates and market interest rates were more-or-less in line.

UK clearing bank base lending rate 6 per cent from January 26, 1993

However, yesterday's move by the Bundesbank raised new expectations that the official discount rate, which sets the floor for money market rates, will be cut at the central bank's next council meeting on May 19.

German call money yesterday fell to a close at 7.68 per cent, putting it back to the level it was at before German unification.

One London-based dealer suggested yesterday that pressure will come on the lower rate floor once the cost of overnight money has fallen to 7.50 per cent. The betting in some banks yesterday was that, if this was the case, the discount rate would be cut by 25 basis points on that day.

The cut raised expectations that the Bundesbank is easing policy more aggressively than had been expected. The June Euromark contract rose 8 basis points on the day to close at 92.91. This assumes that there are another 29 basis points to come off 3-month money in the next four weeks.

French franc futures rallied even more strongly in the belief that yesterday's move opens the way for more cuts in France's official interest rates.

The June Pibor contract was up 18 basis points on the day, to close at 92.66. The September contract was up 17 basis points to close at 93.40.

Sterling markets were quiet following several days in which speculation has spread that there will be another cut in UK base rates this year.

Three month money was a fraction tighter on the day, closing at 5 13/16 per cent from a previous close of 5¾ per cent. This was partly due to difficulties removing a shortage of £600m in the discount market, for which there was late assistance of £210m. The overnight rate was at 6.50 per cent at one stage of trading.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 12)	3 months US dollars		6 months US Dollars
bid 3 1/16	offer 3 3/16	bid 3⅛	offer 3¼

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	6	One month	2.79	Three year	4.28
Broker loan rate	5	Two month	2.89	Five year	5.06
Fed.funds	3 3/16	Three month	2.95	Seven year	5.55
Fed.funds at intervention	-	Six month	3.08	10-year	5.94
		One year	3.24	30-year	6.87
		Two year	3.81		

May 12	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.60-7.75	7.60-7.70	7.45-7.55	7.35-7.45	7.05-7.15	8.50
Paris	8⅛-8¼	8-8⅛	-	7 11/16-7 13/16	-	8.00
Zurich	5-5¼	5 1/16-5 3/16	-	4 15/16-5 1/16	-	-
Amsterdam	7.87-8.00	7.85-7.90	-	7.52-7.57	-	-
Tokyo	3 5/16-3 7/16	-	-	-	-	-
Milan	11 1/16-11½	11-11 1/16	-	11-11 1/16	-	-
Brussels	7½-7⅝	7 5/16-7 7/16	-	7⅛-7¼	-	-
Dublin	7¾-7⅞	8-8⅛	8-8⅛	8-8⅛	7 11/16-7 13/16	-

LONDON MONEY RATES

May 12	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	7	6	6	6	6 1/16	6⅛
Interbank Bid	5½	5⅝	5⅞	5⅞	5 15/16	6
Sterling CDs	-	-	5 7/16	5 7/16	5 15/16	6
Local Authority Deps.	6	5⅞	5 15/16	6	6 1/16	6 3/16
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	6½	6¼	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	5 13/16	5 15/16	6	6⅛
Treasury Bills (Buy)	-	-	5⅝	5⅝	5½	-
Bank Bills (Buy)	-	-	5 11/16	5 11/16	5¾	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	2.92	2.94	3.00	3.18
SDR Linked Dep. Offer	-	-	4⅞	4 13/16	4¾	4 11/16
SDR Linked Dep. Bid	-	-	4¾	4 11/16	4⅝	4 9/16
ECU Linked Dep. Offer	-	-	8¼	8⅛	7 13/16	7⅝
ECU Linked Dep. Bid	-	-	8⅛	8	7 11/16	7½

Treasury Bills (sell): one-month 5 9/16 per cent; three months 5 9/16 per cent; six months 5 7/16 per cent; Bank Bills (sell): one-month 5⅝ per cent; three months 5⅝ per cent; Treasury Bills: Average tender rate of discount 5.2900 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1993. Agreed rates for period May 26, 1993 to June 22, 1993 Schemes II & III: 7.26 p.c. Reference rate for period April 1, 1993 to April 30, 1993, Scheme IV&V: 6.018 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6½ from May 1, 1993. Bank Deposit Rate for sums at 7 days notice 5⅛ p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¾ p.c.; one-three months 5¼ p.c.; three-six months 5 p.c.; six-nine months 4¾ p.c.; nine-twelve months 4½ p.c.; Under £100,000 2¾ p.c. from Jan.27, 1993. Deposits withdrawn for cash 1¼ p.c.

MONEY MARKET FUNDS

Money Market Trust Funds

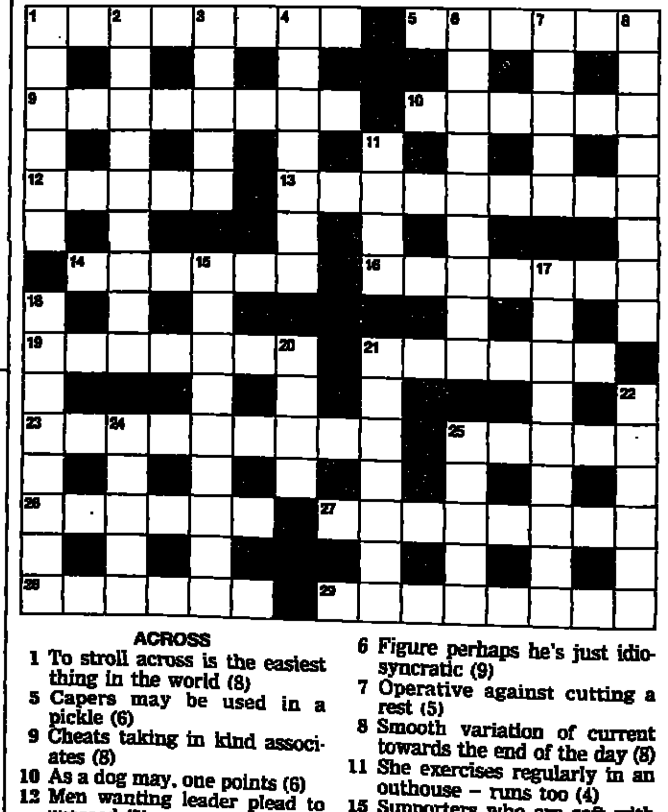
[illegible]

Money Market Bank Accounts

[illegible]

CROSSWORD

No.8,149 Set by VIXEN



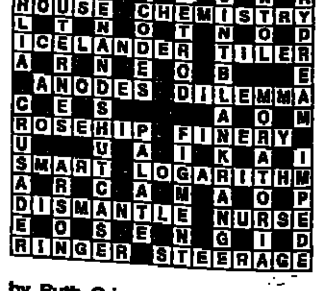
ACROSS

1 To stroll across is the easiest thing in the world (8)
5 Capers may be used in a pickle (6)
9 Cheats taking in kind associates (8)
10 As a dog may, one points (6)
12 Men wanting leader plead to proceed (5)
13 Will investigate before midday – before ten possibly (9)
14 Wave a couple of pages in anger (6)
16 Soldiers weary, so get withdrawn (7)
19 The director is a good man always with royalty (7)
21 Most secure American backing – others will follow (6)
23 Spiritless team in a dreadful state after batting (9)
25 It's the minister's place to give individual direction (5)
26 A man of learning and potential in Iran (6)
27 Check hamper (8)
28 This fellow's a high-flier by the way (6)
29 Scheme to raise interest (8)

DOWN

1 Like candles – black (6)
2 Slip resulting from a lack of good grounding (9)
3 There's no place for gas (5)
4 Name label (7)
6 Figure perhaps he's just idiosyncratic (9)
7 Operative against cutting a rest (5)
8 Smooth variation of current towards the end of the day (8)
11 She exercises regularly in an outhouse – runs too (4)
15 Supporters who are soft with the workers (9)
17 Being displeased about note sent, telephone about it (9)
18 A pirate's ill-written letter (8)
20 Genuine old foreign coin (4)
21 Live in a glow – it's the illicit drinking place! (7)
22 Recent change of heart (6)
24 Making a return once more (5)
25 Mother put a friend right (5)

Solution to Puzzle No.8,148



Crosswords – How to Solve Them by Ruth Crisp (Vixen of the FT) is published by Hodder & Stoughton in the Teach Yourself series (£5-99).

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close May 12

MONTREAL

4 pm close May 12

INDICES

NEW YORK

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

JAPAN

TOKYO - Most Active Stocks

Wednesday, May 12, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Shionogi	14.7m	1,100	+80	NEC Corp	5.7m	1,000	-20
Dainippon Ink	14.6m	582	+25	Minebea	5.8m	584	+7
Mitsubishi Hvy	9.7m	710	-15	Sumitomo Mt Mn	5.1m	1,030	-20
Sumitomo Hvy Ind	7.1m	495	-10	Ishihara Sangyo	5.0m	454	+9
Nippon Steel	6.9m	399	-10	Hitachi	4.7m	890	-21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close May 12

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
13⅝	11½	AAR Corp	0.48	3.6	24	65	13½	13⅛	13¼	-¼
27¼	20	A L Labs A	0.18	0.7	41	1268	25⅞	25½	25⅝	
63½	54⅝	AMP Inc	1.60	2.5	22	2838	62⅞	62	62⅞	+⅜
71⅝	55½	AMR			10	4982	69⅛	67⅞	68⅞	+⅞
2¼	1¾	ARX			12	20	2	2	2	
47	29⅞	ASA	2.00	4.0	32	1583	u49½	46⅝	49½	+2⅝
30¾	22⅝	Abbott Lab	0.68	2.5	17	7999	27½	27	27¼	-¼
12⅝	10¼	Abitibi Pr	0.50	4.1	5	11	12¼	12⅛	12¼	
11¾	10¾	ACM Gvt In x	0.96	8.3		89	11⅝	11½	11½	-⅛
9¾	9⅛	ACM GvOpp x	0.80	8.4		12	9⅝	9½	9½	
9⅝	8¼	ACM Gvt Sp	0.80	8.4		227	u9⅝	9⅜	9½	
11⅜	10½	ACM Gvt Se	0.95	8.6		271	11¼	11⅛	11⅛	
11	9⅝	ACM Man x	1.08	9.8		190	u11	10⅞	11	
9⅜	8⅝	ACM Managd x	0.72	8.0		276	9⅛	9	9	
9⅞	7¾	Acme Cleve	0.40	4.1	12	149	9¾	9¾	9¾	+¼
9¼	6½	Acme Elect			775	61	7¾	7⅝	7¾	
16	12	Acuson			13	246	12¾	12⅜	12½	-¼
22¼	19⅝	Adams Expr x	0.48	2.3	1	57	20⅞	20¾	20⅞	
66	45½	Ad Micro	3.00	5.0		58	60¼	59½	59½	-1⅛
32¾	17⅞	Ad Micro P	3.00	10.4	12	3897	29¼	28⅞	28⅞	-⅜
7¾	5½	Advest Grp	0.16	2.5	11	4	6½	6⅜	6½	+⅛
49⅜	41⅛	Aegon ADR	2.95	6.4	8	53	46½	45½	46⅜	+¾
54⅛	43⅞	Aetna Lf	2.76	5.2	107	1544	53⅞	53¼	53⅜	-⅝
14½	11½	AHM A x	0.26	2.1	28	456	12¾	12⅛	12⅛	-⅛
40¼	33	Aflac x	0.50	1.3	16	1747	38½	37⅝	37¾	-⅞
[illegible]										
8¾	5⅛	Barold	0.20	2.6	31	1691	7⅝	7⅝	7⅝	
7⅝	4⅞	Battle Mt	0.10	1.2	153	2747	u8¼	7¾	8⅛	+¼
57½	48	Bausch Lmb	0.88	1.7	18	2053	53⅞	52¾	53⅛	+⅛
32¾	27⅛	Baxter	1.00	3.3	14	6081	29⅞	29½	29⅞	+⅛
29	24⅜	Bay St Gas x	1.42	5.1	14	151	27⅝	27¼	27⅝	+1.30
25	22	Bd Tr 1838	1.82	7.5		13	24⅜	24⅛	24⅜	+⅛
21	15¾	Bear Stms x	0.60	2.9	7	2379	20⅞	20⅝	20⅞	+¼
48	45½	BearStPfA	2.77	5.8		4	u48	48	47½	-½
24¾	20½	Bearings x	0.64	2.7	82	3	24	23⅞	24	
25½	20¾	Beckman In x	0.36	1.6	14	178	22¼	22⅛	22¼	+⅛
40¾	32⅝	Becton Dks	0.68	1.8	13	595	36⅝	35⅞	36	-¾

Continued on next page

4 pm close May 12

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	15½	S Anita Rl	1.36	7.6	19	96	17⅞	17¾	17⅞	-⅛
20¾	17	SCOR US Cp	0.32	1.7	231	33	18⅞	18½	18½	
28¾	20	SPS Techno	1.28	4.8	19	26	d26¾	26½	26¾	+¼
14½	12⅞	Sabine Rz	1.33	9.4	10	38	14¼	14	14⅛	-⅛
13⅛	9⅞	Safecard	0.10	0.8	18	1385	12⅝	12¼	12½	+¼
23½	17	Safeg'd Sc			8	24	18¾	18½	18½	
24¾	16¼	SafetyKln	0.36	2.1	24	1201	17⅜	17	17⅜	+⅜
15¾	10⅞	Safeway			24	2405	15⅝	15⅜	15⅜	-¼
3⅞	2	SafewayW96				81	3¼	3¼	3¼	
44½	37½	StJoePaper	0.20	0.5	92	56	39	38⅞	39	
37⅝	31	StJosL&P	1.76	4.8	14	26	36¾	36⅝	36¾	+⅛
83¼	75	St Paul's	2.80	3.4	12	537	d83¼	82⅝	82⅞	+½
9⅝	7⅞	Salant Crp			3	5	8⅞	8⅞	8⅞	-⅛
75¼	42½	Sallie Mae	1.20	2.5	10	4575	48⅞	47¼	47¼	-2¼
13⅞	13	Salomon Br x	0.36	2.6		959	13⅝	13⅜	13⅝	+⅛
41⅞	34⅞	SalomonInc	0.64	1.7	19	1163	37¼	36⅞	37¼	+⅝
28⅞	23¼	SanDgo G&E	1.48	5.6	14	328	26⅝	26⅛	26¼	
4⅞	3½	SantaFeEDu	0.40	10.3	193	47	4	3⅞	3⅞	-⅛
11⅞	9⅛	SantaFeSRs	0.16	1.5	197	942	10⅞	[illegible]	[illegible]	[illegible]
[illegible]										

- T -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

- U -

[illegible]										

- V -

[illegible]										

- W -

[illegible]										

- X - Y - Z -

[illegible]										

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close May 12

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close May 12

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

FINANCIAL TIMES Thursday May 13 1993

AMERICA

Rise in inflation data dampens sentiment

Wall Street

A BIG fall in bond prices, triggered by bad inflation news, depressed sentiment on US stock markets yesterday, leaving prices flat-to-lower in light trading, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 4.70 at 3,473.45. The more broadly based Standard & Poor's 500 was down 0.38 at 443.98, while the Amex composite was 0.03 lower at 427.22, and the Nasdaq composite down 1.28 at 681.78. Trading volume on the NYSE was 145m shares by 1 pm, and declines outnumbered rises by 950 to 815.

After Tuesday's solid gains, equities may have been expected to advance further yesterday morning, possibly to new highs on the major indices. Those chances were scuppered, however, by unexpectedly bad news on inflation, which came in the form of a 0.6 per cent rise in the April producer prices index. Not only had analysts expected an increase of only 0.2 per cent in the PPI, but the "core" measure of producer price inflation, which excludes volatile food and energy prices, was also worryingly strong at a 0.4 per cent rise.

The bad inflation figure upset the bond market, where the benchmark 30-year issue quickly fell by almost ¾ of a point, pushing the yield up to 6.87 per cent. This increase in bond yields, and the fear that rising inflation could, at some stage, persuade the Federal Reserve to lift interest rates, unsettled equity market investors, setting the tone for a downbeat opening to trading.

Retailers were in the spotlight after some of the industry's biggest groups reported quarterly earnings. Wal-Mart jumped $1¼ to $27¼ in volume of 2.6m shares after announcing first quarter profits of 20 cents a share, up from 17 cents a share a year earlier. The company also said that first quarter sales rose 19 per cent to a record $13.9bn.

In contrast, Woolworth fell $¼ to $29¼ after the company announced disappointing earnings of only 1 cent a share, down from 13 cents a share at the same stage of 1992. Federated Department Stores, however, fared better, the stock rising $⅝ to $21 on the news that first quarter net income, before extraordinary items, was slightly higher than a year ago.

Philip Morris, which posted strong gains last week on the news that its main rival in the domestic cigarette market was no longer offering discounts on its cheap brands, ran into further profit-taking, and fell $1⅛ to $50⅞ in volume of 3.2m shares.

Chevron climbed $1¾ to $87⅞ on the news that the company has already booked initial reserves of 1.1bn barrels of oil from its Tengiz venture in the former Soviet republic of Kazakhstan.

Canada

TORONTO was moderately lower at midday, with losses seen in gold and transport shares, as the market continued to consolidate in quiet dealings. Weakness in US and Canadian bonds along with a slide in the Canadian dollar, also weighed on the market.

The TSE 300 Composite Index fell 8.54 to 3,771.82 in volume of 32.8m shares. Gold shares slipped on profit-taking following recent gains.

EUROPE

Mixed performances after rate cuts

THE reduction in German money market rates, which sparked a fresh round of interest rate cuts on the continent, was also taken to indicate that the Bundesbank will ease the Lombard and discount rates soon, *writes Our Markets Staff.*

The cut did not surprise strategists, who had been expecting an acceleration in the process by the middle of the year. Mr Andrew Bell, of BZW in London, noted that there had been signals from the Bundesbank that it was to step up the pace of cuts and said that the next few months would see a continuation of the process. "Rate cuts are a necessary damage limitation exercise owing to the state of the economy in continental Europe, not a bonus," he said.

He now forecasts German interest rates of 4.5 per cent by next spring. However, this should be accompanied by a spate of sharply reduced company earnings forecasts over the next quarter, a further indication that 1994 is unlikely to provide the hoped for "bounce" in growth.

PARIS paid little attention to the base rate cut, turning instead to a raft of mixed first quarter sales figures. The 1 per cent rise on the day in the CAC-40 index, which gained 18.15 to 1,872.67, was also assisted by strong activity in the futures market. Turnover was some FFr2.9bn.

Alcatel fell FFr9 to FFr618 in turnover of FFr450m on speculation that it might be looking to increase its stake in Framatome.

News that Chargeurs was to cut its workforce sent the shares down FFr60 to FFr1,015.

FRANKFURT saw an upswing in futures and short covering in the cash market as the morning's repo rate cut put more pressure on the bears. Volume eased from DM6.6bn to DM6.5bn as the DAX index closed 13.31 higher at 1,629.46.

Sector and individual share price performance was mixed. Volkswagen fell another DM3 to DM317.50; but MAN recovered DM8.40 to DM274 as analysts said that this company had come to its crisis, whereas others were seeing their recessionary troubles deepen.

The big three chemicals all rose, Bayer putting on DM4.70 to DM261.30 on a FDA recommendation of a drug produced by its US unit, Miles Inc, for treatment of children with HIV. Mr Horst Greven of Merck Finck in Munich said that the sector gains reflected a yield orientation among equity investors.

MADRID's general index fell 0.36 to 241.85 but the session was enlivened by the first day of trading in Argentaria, the newly privatised bank, which closed at Pta4,230 against an intraday peak of Pta4,375 and an offer price of Pta3,800.

Mr Pedro Echeguren of NatWest Securities said that the price action compared with initial analysts' forecasts of Pta4,100 and subsequent upgrades to Pta4,200 or Pta4,300 after the success of the flotation. He added that a weaker opening for the stock in New York explained the decline from the day's high.

MILAN adopted a positive trend after falls earlier in the week with renewed buying by funds and small investors. The Comit index rose 2.47 to 534.09, with options expiry having only a limited influence.

This resilience in the absence of a rates cut surprised some analysts who believe that the Bank of Italy is awaiting progress on supplementary budget before it moves.

Fondiaria gave up some of Tuesday's 4.7 per cent rise in further response to the sale of its stake in AMB: the shares fell L429 to L31,153.

ZURICH edged lower after profit-taking in recently firm blue chips and a weaker dollar weighed on late business. The SMI index fell 0.7 to 2,191.9.

Nestlé bearers added SFr10 to SFr1,120 although a 6 per cent rise in first quarter sales was less than some expectations.

Motor Columbus added SFr50 or 8.5 per cent to SFr635 in further response to the energy and communications group's forecast on Tuesday of a big improvement in 1993 results.

AMSTERDAM was supported by the cut in domestic rates with the CBS Tendency index gaining 0.4 to 109.1. Aegon, which reported a rise in first quarter profits, improved 90 cents to Fl 85.10. Polygram moved up Fl 1.30 to Fl 48.90 after a brokers upgrade.

STOCKHOLM saw record turnover of SKr2bn, encouraged partly by Ericsson's positive first quarter results, the B shares advancing SKr19 to SKr310. The Affärsvärlden general index gained 19.4 to 1081.7.

DUBLIN remained strong, the ISEQ overall index rising 20.38, or 1.3 per cent to 1,543.31.

Mr Adrian O'Carroll of Dillon Read commented that the Bank of Ireland's 5 per cent gain preceded today's results.

VIENNA advanced, taking its lead from Frankfurt and news that bankers had valued the 20 per cent of OMV that is to be privatised at well above its market price. The ATX index gained 8.05 to 777.18.

ISTANBUL returned to record levels with the 75-share index up 140.43 or 1.8 per cent at 7,952.71 on strong demand, particularly in cement issues.

FT-SE Actuaries Share Indices

May 12 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1143.76	1145.09	1146.11	1146.89	1148.27	1147.16	1147.20	1148.06
FT-SE Eurotrack 200	1211.96	1213.86	1213.70	1214.26	1215.48	1214.45	1214.76	1215.04

	May 11	May 10	May 7	May 6	May 5
FT-SE Eurotrack 100	1140.44	1142.74	1142.41	1152.03	1153.13
FT-SE Eurotrack 200	1206.03	1203.54	1200.34	1205.10	1206.61

Base value 1000 (26/10/90) High/day: 100 - 1148.93; 200 - 1216.55 Low/day: 100 - 1143.60 200 - 1211.96.

ASIA PACIFIC

Hong Kong, Singapore advance to record highs

Tokyo

THE NIKKEI average retreated 1.5 per cent in the absence of market-moving news as heavy sales of futures contracts and subsequent arbitrage activity fuelled a broad sell-off, *writes Wayne Aponte in Tokyo.*

The 225-issue index closed 325.17 lower at 20,615.20, after moving between 20,416.12 and 20,939.87. The Topix index of all first section stocks lost 26.89 at 1,608.94, and in London the ISE/Nikkei 50 index eased 0.19 to 1,244.41.

Volume was estimated at 580m shares, compared with Tuesday's 696m. Declines overwhelmed rises by 796 to 284, with 110 issues unchanged.

Brokers attributed the day's fall to technical dealings, resulting in the unwinding of long positions by arbitrageurs.

Mr Norio Okutsu, a manager of futures and options trading at Nikko Securities, said the rapid selling of futures contracts carried over into the cash market. The Nikkei's decline accelerated further once investment trusts, individuals and dealers joined the selling spree and relinquished some of their shares, he added.

An analyst at a UK securities company said some western-based investors sold shares on speculation that the dollar may strengthen further against the yen.

Large-capital electrical issues moved into negative territory. Toshiba slipped Y25 to Y711 and Hitachi Y21 to Y890. Profit-taking pushed consumer electronics lower: Sony shed Y150 to Y4,780, TDK Y60 to Y3,940 and Pioneer Electronic Y20 to Y2,630.

NEC receded Y20 to Y1,000, Fujitsu Y22 to Y760 and Nippon Telegraph and Telephone Y17,000 to Y944,000.

Securities firms also lost ground on profit-taking: Nomura was down Y50 to Y2,160, Daiwa Y50 to Y1,300 and Nikko Y40 to Y1,070.

In contrast, Shionogi, the pharmaceutical company and the most active issue of the day, climbed Y60 to Y1,100.

In Osaka, the OSE average relinquished 379.62 at 22,772.62 in volume of 24.3m shares.

Roundup

POLITICAL AND corporate developments helped some of the Pacific Rim markets to higher levels.

HONG KONG punched through the 7,000 milestone for the first time on continued optimism after Tuesday's Sino-British agreement on land sales in the coming year.

Mr Johathan Dennis of HG Asia said the agreement was seen by the market as further evidence that China did not want to undermine Hong Kong in the longer term.

The Hang Seng index added 160.63, or 2.35 per cent, at 7,002.60 after Tuesday's 103-point rise. Turnover swelled to HK$5.69bn from HK$4.24bn.

The index has climbed 25 per cent since October 7 when Governor Chris Patten unveiled the political reform proposals that sparked a bitter row with China and caused the market to dive.

Cheung Kong topped the active list and rose 90 cents to HK$28.20. Hongkong Land was also 90 cents stronger, at HK$14.70. Henderson Land advanced HK$1.30, or 6.4 per cent, to HK$21.60 on news that it is considering spinning off its China operations for a separate listing.

SINGAPORE also closed at a record high, with strong institutional demand taking the Straits Times Industrial index 34.54 ahead to 1,828.58.

The market moved ahead strongly from the opening, led by demand for Sembawang Shipyard shares and warrants on news of its tentative agreement to help build a power plant in Suzhou in China. Sembawang shares and 1994 warrants each put on 70 cents at S$12.60 and S$6.80 respectively.

AUSTRALIA saw the All Ordinaries index rise 8.3 to 1,695.7 in A$417.35m turnover.

News Corp, which announced a 133 per cent jump in net profits for the three months to end-March, appreciated 37 cents to A$7.77.

Westpac finished 11 cents weaker at A$3.66, but there were worries that the stock would drop further after Mr Kerry Packer's Consolidated Press Holdings agreed to sell its 10 per cent stake to Lend Lease at A$3.50 a share.

BANGKOK moved strongly ahead as gains by leading property groups and finance and brokerage companies spurred demand. The SET index advanced 15.30, or 1.8 per cent, to 865.65. JAKARTA ended higher across the board in active trade after foreigners bought blue chips and local investors sought speculative shares. The official index rose 0.86 per cent to a 10-month high of 319.12.

TAIWAN moved forward in moderate trade on hopes of a cut in official interest rates. The weighted index gained 39.72 at 4,718.23.

SEOUL was marginally lower in moderate trading in spite of institutional buying which clawed back much of an early loss. The stock index ended 1.28 easier at 700.08.

SOUTH AFRICA

GENCOR, which has announced plans to unbundle its non-mining interests, closed 15 cents lower at R11.80. The overall index gained 17 at 3,763 and industrials 22 at 4,401. The golds index improved 14 to 1,444.

Brussels is punished for speculative rally

After a very strong first quarter equities face a difficult year, writes Andrew Hill

The Brussels bourse was among the best performing European equity markets in the first quarter of 1993, the Bel-20 index rising by nearly 12 per cent. But at the same time, Belgium's other financial markets – government bonds and currency, in particular – were experiencing unprecedented turbulence.

Investors took fright after a series of unsettling domestic political and economic developments, starting with the Belgian parliament's approval of the first in a line of wide-ranging constitutional reforms, which will turn the country into a federal state.

That provoked largely unjustified fears that a continued process of federalisation would exacerbate the country's looming budget deficit.

Finally, in the last weeks of March, Mr Jean-Luc Dehaene, the prime minister, tendered his government's resignation after the coalition failed to agree how to reduce the deficit.

Within a week, however, he had managed to broker a deal between coalition partners and the "mini-crisis" was over, returning a semblance of calm to bond and money markets.

Equities, on the other hand, moved into reverse. Since April 7 the Bel-20 index has slipped 5.4 per cent in spite of yesterday's gain of 10.26 points to 1,201.04.

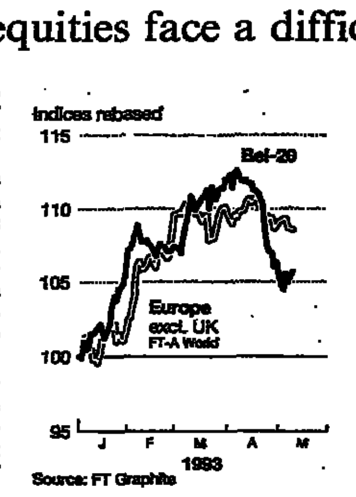
This is not simply a belated reaction to the unstable political situation. Two emergency interest rate rises in as many months, although quickly reversed, have unsettled investors; but the decline in April has been more of a punishment for earlier speculation.

The gradual reduction in German interest rates, for example, revived the slightly dog-eared theory that the cyclical stocks which dominate the Brussels bourse were set for recovery.

For those which have bitten the bullet and carried out painful restructuring over the last two years, that may be true. For instance, Bekaert, the wire and steel cord producer, returned to profit last year and more than doubled its net dividend.

But recession is still the dominant economic factor in continental Europe. Results from other cyclicals and, in particular, their gloomy predictions for the rest of 1993, have punctured the optimists' forecasts of an upturn within nine months.

For example, Arbed, the Luxembourg steelmaker, was the best-performing stock of the first quarter, with a 61 per cent increase on the beginning of the year. But it lost LFr2.9bn ($88m) in 1992, and warned last month that it would be unable to pay a dividend in 1993.



Belgium's exporters – which means almost all its large companies – have also suffered from the strength of the Belgian franc against recently devalued European currencies. Glaverbel, the glass-maker, complained publicly that "competitive devaluation" last year had allowed some of its rivals, such as Pilkington, of the UK, to undercut prices.

Chemicals and steel producers have experienced similar price competition, exacerbated by cheap imports from eastern Europe.

Speculation on individual large stocks has also failed to bear fruit. The hardy Brussels perennial – possible divestment of holdings by Société Générale de Belgique – has yet to flower, and widespread rumours of a takeover bid for Petrofina, the oil and gas producer which is Belgium's largest industrial company, have been cut down by the most likely suitor, Elf-Aquitaine, of France, and the group's principal shareholders. The shares now stand at BFr8,160, having touched BFr9,750 a month ago.

In the near future, then, the outlook for the bourse must be gloomy, with investors waiting until the September results season for solid evidence of trading conditions.

The exchange has a new president – Mr Henri Servais of brokerage firm Dewaay, Servais – who has pledged to attract some of Belgium's extensive individual savings towards the bourse and away from government bonds. In the current climate, he may find that he has his work cut out.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY MAY 11 1993								MONDAY MAY 10 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (68)	136.20	+0.5	130.96	95.70	113.90	129.36	+0.9	3.81	135.46	130.84	95.69	113.00	128.21	144.19	117.39	150.46
Austria (18)	139.63	-1.3	134.25	98.11	116.77	116.87	-0.5	1.81	141.52	136.69	99.97	118.06	117.47	150.96	131.16	165.32
Belgium (42)	145.12	-0.3	139.52	101.95	121.35	118.45	-0.3	4.78	145.51	140.54	102.78	121.38	118.78	156.76	131.19	143.60
Canada (109)	126.62	-0.3	121.74	88.96	105.88	116.90	+0.2	2.83	127.04	122.70	89.74	105.97	116.69	127.86	111.41	127.68
Denmark (33)	221.75	+0.5	213.21	155.80	185.44	187.07	+0.5	1.21	220.64	213.10	155.86	184.05	186.20	225.64	185.11	240.35
Finland (23)	93.49	-3.3	89.89	65.69	78.18	108.65	-2.3	1.13	96.65	93.35	68.28	80.63	111.16	100.43	65.50	82.35
France (98)	153.89	-1.4	147.96	108.12	128.68	130.90	-1.0	3.43	156.10	150.77	110.26	130.20	132.28	167.36	142.72	167.06
Germany (62)	110.97	+0.2	106.70	77.98	92.80	92.80	+0.5	2.27	110.73	106.95	78.23	92.36	92.36	117.10	101.59	120.79
Hong Kong (55)	277.70	+1.6	267.00	195.11	232.24	275.58	+1.6	3.34	273.29	263.96	193.05	227.98	271.22	277.70	218.82	236.10
Ireland (15)	159.25	+1.0	153.11	111.89	133.17	148.55	+1.1	3.56	157.69	152.31	111.39	131.54	147.00	170.40	129.28	163.28
Italy (73)	67.69	-0.8	65.09	47.56	56.61	75.35	+0.0	2.61	68.23	65.90	48.19	56.91	75.36	70.58	53.78	69.11
Japan (470)	146.09	+0.1	140.47	102.64	122.19	102.64	-0.4	0.81	145.92	140.94	103.08	121.74	103.08	146.85	100.75	104.33
Malaysia (69)	322.28	-0.3	309.86	226.42	269.50	318.92	-0.1	2.12	323.09	312.06	228.22	269.50	319.35	324.36	251.66	241.74
Mexico (18)	1502.05	-0.8	1444.18	1055.33	1256.10	5145.20	-0.7	1.32	1513.67	1461.99	1069.24	1262.67	5180.06	1725.81	1410.30	1636.43
Netherland (24)	168.44	-0.2	161.95	118.34	140.86	138.76	+0.1	3.99	168.71	162.95	119.18	140.74	138.64	172.75	150.39	158.88
New Zealand (13)	46.62	-0.2	44.83	32.76	38.99	45.68	+0.3	4.81	46.70	45.11	32.99	38.96	45.54	49.32	40.56	44.90
Norway (22)	159.39	+1.0	153.25	111.99	133.30	147.06	+1.4	1.79	157.78	152.39	111.45	131.62	144.98	166.21	137.71	187.65
Singapore (38)	240.57	+0.8	231.30	169.03	201.18	179.10	+1.0	1.88	238.63	230.48	168.56	199.05	177.32	243.60	207.04	213.71
South Africa (60)	184.85	-0.3	177.73	129.87	154.58	186.66	-0.1	2.70	185.37	179.04	130.94	154.63	186.78	188.30	144.72	241.25
Spain (45)	127.62	+0.4	122.70	89.67	106.72	114.18	+0.7	5.31	127.11	122.77	89.79	106.03	113.43	132.82	115.23	156.70
Sweden (36)	173.95	-0.9	167.24	122.22	145.47	191.33	-0.6	1.78	175.57	169.58	124.02	146.46	192.40	177.74	149.70	194.22
Switzerland (55)	121.46	+0.3	116.79	85.35	101.59	109.83	+0.5	1.98	121.14	117.00	85.57	101.06	109.23	123.58	108.91	105.49
United Kingdom (218)	177.37	+0.6	170.54	124.61	148.31	170.54	+0.2	4.01	176.23	170.21	124.48	146.99	170.21	181.99	162.00	198.53
USA (519)	181.70	+0.4	174.70	127.66	151.95	181.70	+0.4	2.81	181.06	174.88	127.90	151.04	181.06	186.27	175.38	169.76
Europe (764)	144.55	+0.0	138.99	101.57	120.89	131.58	+0.0	3.38	144.49	139.56	102.07	120.54	131.51	149.02	133.92	154.97
Nordic (114)	165.31	-0.7	158.94	116.15	138.24	159.47	-0.4	1.56	166.50	160.81	117.61	138.89	160.06	169.44	142.13	181.49
Pacific Basin (713)	149.47	+0.2	143.71	105.02	125.00	108.63	-0.3	1.09	149.17	144.07	105.37	124.43	108.91	150.03	105.89	110.25
Euro-Pacific (1477)	147.34	+0.1	141.66	103.51	123.21	118.70	-0.1	2.01	147.14	142.11	103.93	122.73	118.85	148.94	117.26	128.36
North America (628)	178.26	+0.3	171.39	125.26	149.10	177.28	+0.3	2.81	177.69	171.62	125.53	148.25	176.68	182.38	171.51	167.12
Europe Ex. UK (546)	124.39	-0.4	119.60	87.41	104.04	109.74	+0.0	2.95	124.85	120.59	88.21	104.17	109.79	128.65	112.51	129.23
Pacific Ex. Japan (243)	183.10	+0.9	176.04	128.66	153.13	167.44	+1.0	3.23	181.55	175.35	128.26	151.46	165.76	184.84	152.70	168.54
World Ex. US (1664)	147.83	+0.1	142.13	103.87	123.62	120.66	-0.1	2.04	147.66	142.62	104.31	123.18	120.81	149.39	118.51	130.56
World Ex. UK (1965)	156.33	+0.2	150.31	109.84	130.75	136.37	+0.0	2.16	156.09	150.76	110.26	130.22	136.31	157.19	134.22	137.54
World Ex. So. Af. (2123)	158.12	+0.2	152.03	111.10	132.24	139.10	+0.1	2.33	157.79	152.40	111.47	131.64	139.02	158.98	137.29	142.15
World Ex. Japan (1713)	166.47	+0.2	160.05	116.97	139.23	159.70	+0.3	3.02	166.06	160.39	117.32	138.55	159.27	168.09	157.47	164.39
The World Index (2183)	158.19	+0.2	152.09	111.15	132.29	139.53	+0.1	2.33	157.87	152.48	111.52	131.70	139.45	159.07	137.32	142.79

Constituent addition with effect from 13/5/93: Argentaria (Spain). Latest prices were unavailable for this edition.

هكذا من الأصل

FINANCIAL TIMES SURVEY

INDONESIA

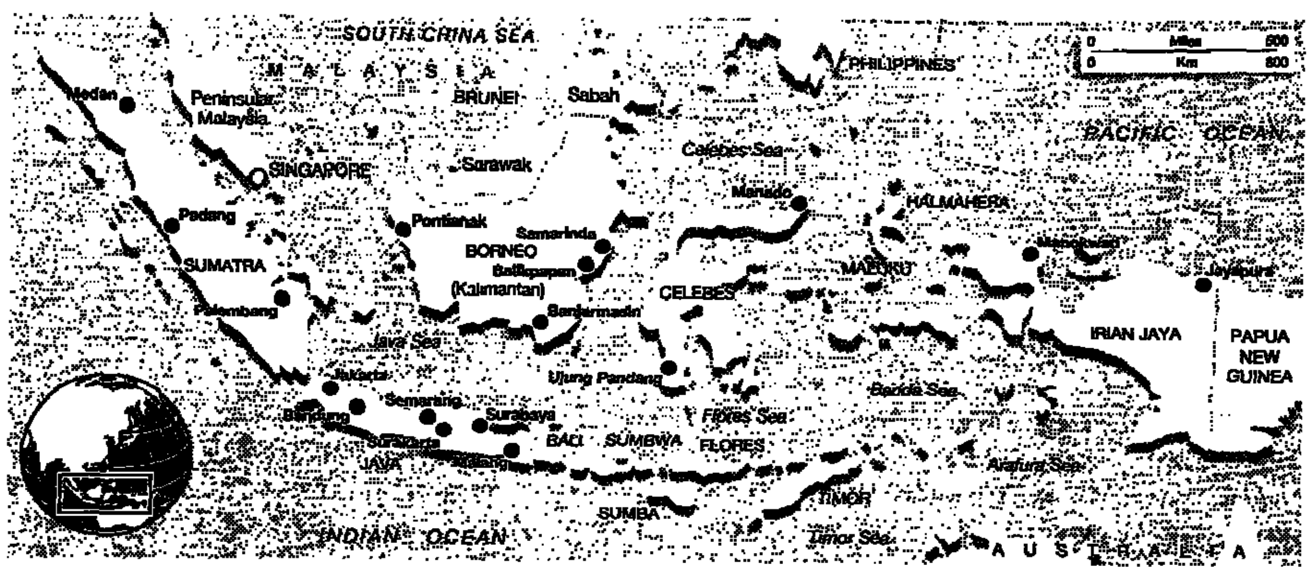
In 10 years this member of the oil exporters' club may be a net oil buyer Page 3

Pearls in a cobalt sea: the exotic Spice Islands are on the tourism map Page 4

SECTION III

Thursday May 13 1993

Military message: troops display anti-riot gear in last October's Army Day parade



President Suharto's election for a sixth term of office has muted discussion of Indonesia's political future. Concern now focuses mainly on the economy as domestic consumption increases while output of oil, the main currency earner, declines. **Victor Mallet** reports

Everything to play for

THE installation in March of President Suharto for his sixth term of office as Indonesia's undisputed leader has temporarily dampened the long-running debate about who should succeed him – he is 71 – and about how the country should engineer a peaceful transfer of power.

A more urgent topic of discussion these days among apprehensive Indonesians in the capital Jakarta, and in booming industrial towns like Surabaya in East Java, is the future of the economy.

For the past 25 years Indonesia has successfully followed a pattern common to several fast-growing south-east Asian economies, absorbing foreign aid and investment and exploiting its own natural resources to finance the creation of labour-intensive export industries.

With oil production falling and domestic energy consumption rising, Indonesia may become a net importer of oil in the next decade, but textile factories, shoe companies and television plants, springing up on what were once Java's rice-fields, are replacing lost revenue.

The $5bn of manufactured goods exported annually is now on a par with gross exports of crude oil. Poverty is declining and last year Indonesians continued to enjoy real economic growth of almost six per cent.

Yet just as Indonesia faces the need to spend tens of billions of dollars on industry and on the infrastructure projects required for further growth – power stations, roads, ports and telecommunications, not to mention schools or the $16bn plan to develop the offshore Natuna gas field – it is meeting some unwelcome competition for investment funds from China, India and Vietnam.

Foreign investment flows to Indonesia appear to have peaked and domestic investment has fallen sharply, prompting officials from President Suharto downwards to promise improved incentives and new measures to cut through Indonesia's notorious red tape.

Mr Saleh Afiff, the senior minister who oversees the economy and finance, acknowledges that Indonesia's rivals are economic threats. "We have to compete for funds which are shrinking," he says. "A couple of years ago, no-one would go to Vietnam. Ten years ago China was small. Suddenly they are in the field and we have to compete."

Some of Indonesia's problems are geographical. With about 187m inhabitants – more than the other five members of the Association of South East Asian Nations (Asean) put together – it is the world's fourth most populous nation and has plentiful supplies of cheap labour to tempt investors.

The territory ruled by Jakarta, however, extends nearly 5,000km across more than 13,000 islands.

Indonesia encompasses the intensely Islamic people of Aceh on the northern tip of Sumatra, the densely populated main island of Java, the tourist resorts of Bali, the island of Flores (where more than 1,200 residents were killed by an earthquake and tidal wave in December last year), the Christians of East Timor (the former Portuguese colony where Indonesian troops shot dead at last 50 supporters of separatism at a funeral in 1991), and the primitive tribes of Irian Jaya in the east.

Even if investors confine themselves to the relatively manageable logistics of Java, as most do, they cannot avoid nationwide problems of bureaucracy and corruption which earn Indonesia a reputation for some of the highest hidden business costs in Asia.

Another, related deterrent for investors is the tendency of the President's children to seek and win lucrative contracts and monopolies, for everything from toll roads in Jakarta to orange trading in Kalimantan, and to take stakes in joint ventures against the better judgment of the other partners; foreign entrepreneurs and ethnic Chinese businessmen wince at the mere mention of the companies controlled by the President's children.

It is not just that such corporations may make only limited contributions in the form of expertise or capital; critics say their presence could actually make it more difficult for a venture to raise finance because of the reluctance of foreign banks or international financial institutions to lend to politically influential figures over whom they have no leverage.

The latest transaction to arouse concern was the quiet privatisation, without open tender, of part of Indonesia's state satellite communications business. It emerged that a business headed by the president's second son had acquired 60 per cent of Satelindo, a new holding company, with two state telecommunications bodies holding the rest.

Another concern among the economic "technocrats" who have steered Indonesia down the road of export-led growth is the power of Mr B.J. Habibie, the eager minister of research and technology.

☐ Continued on Page 6

Rice distribution in West Java: average per capita income is $620 and the labour market grows by 2m a year

The economy is basically sound but growth is not fast enough, writes **William Keeling**

An untried team takes the helm

THE business community has been alive with gossip since the March cabinet reshuffle. Businessmen's concerns range from whether the economic ministers have the political support to push through further deregulation to whether the cabinet backs deregulation at all.

The new government has taken over a macro-economy in relatively good fettle. In the last financial year, ending March 31, non-oil exports – such as textiles, shoes and consumer electronics – grew an estimated 21 per cent to $22.98bn allowing the country to maintain a small trade surplus.

The cost of servicing foreign debt, however, resulted in a current account deficit of about $3.75bn in 1992/93, but this is a significant improvement on the $4.4bn deficit a year earlier.

Not all the indicators are positive. Public and private international debt (with the latter making up an increasingly large proportion) rose from $80bn at the end of 1991 to $85bn-$90bn last December, although there has been a rise of almost equal magnitude in net foreign assets held by the banking sector.

The debt service ratio remains stubbornly high at about 32 per cent of export proceeds, exacerbated by the recent appreciation of the yen in which 40 per cent of public foreign debt is denominated. Although Japan remains Indonesia's principal export market, trade in the four leading products – oil, liquefied natural gas, plywood and shrimps – is denominated in dollars.

Fears over Indonesia's ability to service its foreign debt have led to speculation within the business community that the government may decide on a sharp "one-off" devaluation of the rupiah.

Such fears are almost certainly unfounded, not least because the government already has a policy of "staggered depreciation", lowering the value of the rupiah against the dollar by about seven per cent a year.

Indonesia also operates a free foreign exchange regime, so that a sudden devaluation could spur mass capital flight; it would lead to a surge in inflation – already running at about 10 per cent a year – from higher import costs; and inflation and the need to protect against capital flight would result in spiralling interest rates.

The removal, however, of Messrs Radius Prawiro, J.B. Sumarlin and Adrianus Mooy, the three main economic technocrats of the last cabinet, has raised concerns over the government's ability to keep a tight rein over the economy.

Their replacements – Mr Saleh Afiff, Mr Mar'ie Muhammad and Mr Sudradjat Djiwandono as coordinating minister for the economy and finance, finance minister and central bank governor respectively – are largely unproven and may lack the team-spirit developed by their predecessors.

One safeguard against a dramatic policy swing is the need to placate donors, such as the World Bank and the Asian Development Bank. Indonesia remains reliant upon donor aid – commitments in 1993/94 are expected to total about $5bn when donors meet in Paris on June 29-30 – to cover its current account deficit.

And in spite of rumours, there is little evidence the new ministers plan anything other than to maintain prudent economic policies. Indeed, they have come out with surprisingly strong statements on the need to liberalise further and faster if Indonesia is to remain competitive with China and Vietnam, its two main rivals.

While inflows of foreign investment may have peaked – and domestic investment, particularly from the Indonesian Chinese community, has fallen – it is difficult to imagine the trend of over six per cent annual growth being broken under the new administration.

The question facing Indonesia, however, is whether six per cent growth is good enough. While developed economies would be delighted with growth at half that rate, Indonesia is not only starting at a low base – average per capita income is $620 a year – but it must absorb over 2m entrants to the labour market each year.

Government ministers say seven per cent is the maximum growth the country can achieve without the economy overheating. The fact, however, that Malaysia and Thailand can maintain 8-10 per cent growth, and China is currently growing even faster, suggests that major impediments still exist within the Indonesian economy.

It does not take a sleuth to see what the impediments are. Whereas export-oriented industries operate in a relatively free environment, the domestic economy remains blighted by public and private monopolies enjoying a high degree of tariff protection.

Donors highlight the emerging petrochemicals sector as an example of where the country is going wrong. The government recently introduced a 25 per cent import tariff on polypropylene resin alongside a 30-40 per cent import tariff on plastic films with which the resin is made.

Such tariffs allow politically well-connected businessmen to build petrochemical plants with little regard to minimising cost and still record handsome profits.

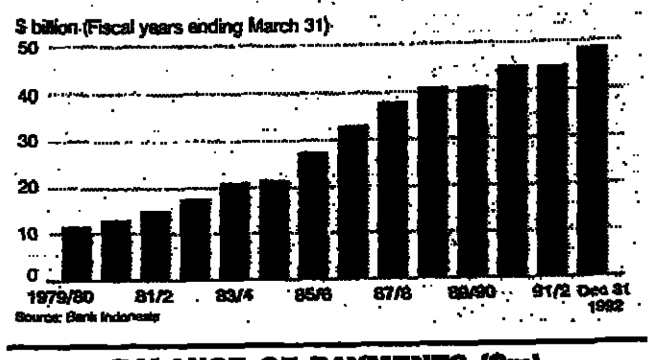
Inefficiencies of this type affect almost every sector of the domestic economy from telecommunications to food-processing where the government's control of sugar imports keeps the cost of a key raw material high.

Donors are also concerned at the level of government subsidy to state-owned high-technology industries such as aircraft manufacturing and ship-building. Ministers concede the industries make a loss but say finance is limited to the Rp660bn allocated under the state budget. Donors, and officials from the industries themselves, say funding is far higher, possibly exceeding Rp3,000bn a year.

While the government officially operates a balanced budget, donors say about $1.5bn of revenue and expenditure (about five per cent of the total) is received and distributed each year off-budget. The extra money, from such sources as higher than anticipated oil-revenues, may be well spent but a lack of transparency is no incentive for efficient financial management.

Deregulating the domestic economy and disbursing state revenue more efficiently will become increasingly important if the rate of growth in non-oil exports begins to decline. Battling with well-connected business monopolies and cash-hungry government enterprises, however, will require firm political will.

Public external debt



Source: Bank Indonesia

BALANCE OF PAYMENTS ($m)

	1991/92*	1992/93*
CURRENT ACCOUNT		
Oil (net)	2,158	2,190
Gas (net)	2,404	2,294
Non-oil exports (fob)	19,008	22,975
Non-oil imports (cif)	(24,066)	(27,191)
Non-oil services (net)	(3,856)	(4,023)
	(4,352)	(3,755)
CAPITAL ACCOUNT		
Donor aid	5,600	4,927
Debt repayments	(4,182)	(4,656)
Direct investments	1,531	1,804
Other capital flows	2,602	3,188
	5,551	5,308
TOTAL	1,199	1,533
Net errors/omissions	(218)	(118)

*Fiscal year, ending March 31 Source: Bank Indonesia

President and Mrs Suharto celebrating their 45th wedding anniversary: two of their sons and a daughter are members of parliament

Suharto tightens his grip but time is against him, says **William Keeling**

Armed forces hold the key

PRESIDENT Suharto's election to a sixth five-year term of office last March came as no surprise. Not only was he the sole candidate for the post, backed by both opposition parties and the ruling Golkar party, he also had a direct say in appointing more than half the 1,000-member electoral college.

Instead, Mr Suharto saved the surprises for the cabinet reshuffle. Out went 20 of his 35 ministers including the three leading economic ministers, the home affairs minister and the minister of defence.

It is too early to pass judgment on the new cabinet but Mr Suharto appears to have further tightened his already strong grip on the country's political affairs.

Looking to the past, the depth of his personal power has ensured political stability and provided the environment for economic growth.

Facing up to the future, with Mr Suharto turning 72 next month and no clear successor in sight, doubts are increasing over whether a smooth transition to the post-Suharto era can be achieved.

Much will depend on the armed forces (known by their Indonesian acronym Abri), which enjoy a fifth of the seats in the national assembly and have a political role enshrined in the constitution. Abri is seen by the business community as a source of stability. "The smooth transition from the old generation military leaders to the new generation is complete," says the head of one Indonesian conglomerate.

But Abri does not always act as a homogeneous force; and certain groupings within Abri may not see eye-to-eye with Mr Suharto over who should be the next president.

The depth of Mr Suharto's personal power ensures the political scene remains a mostly closed affair and the tensions within government rarely break through a veil of obfuscation. A decision, however, by Abri to nominate General Try Sutrisno, armed forces commander until early this year, for vice-president several weeks before the March election caused a stir.

Many Indonesians interpreted the move as a way of manoeuvering Mr Suharto into a corner and avoiding a recurrence of the 1988 election when Mr Suharto nominated State Minister Sudharmono, a trusted legal adviser, against the wishes of several Abri officers.

Whilst Gen Sutrisno is a former personal aide to Mr Suharto, the latter may not wish him to be the next president. As one western diplomat explained, Gen Sutrisno is "surrounded by Abri and dominated by them. He's not a particularly strong man."

Political opponents say Mr Suharto has already exacted retribution on Abri by removing General Benny Murdani – previously seen as an important counter-balance to the president – as defence minister and reducing the number of military officers in the cabinet.

General Edi Sudrajat, recently appointed Abri commander, and General Ida Bagus Sudjana, the new oil minister, are "regarded by Abri as their only real representatives in the cabinet," notes a diplomat. Abri is now pushing to retain its influence by having an officer head the ruling Golkar party.

Mr Suharto, himself a former general, has been promoting within Abri officers more to his liking – a military background and Islam as a religion are almost certain pre-requisites for the next president. At the top of the list is General Wismoyo Arismunandar, the army chief who has the added benefit of being Mr Suharto's brother-in-law.

But Gen Arismunandar is thought to have a weak power-base within Abri, perhaps because of his first-family connection, and is regarded by many officers as a soldier-politician.

Gen Try Sutrisno: the army's vice-presidential choice

The concern of some Abri officers is that Mr Suharto's choice of successor will be made on the narrow grounds of who will best protect his family after he has gone.

Should he harbour any desire to step down, Mr Suharto's influence over his possible replacement remains strong. For instance, if Mr Suharto were to stand for a seventh term of office in 1998, push through his nomination as vice-president and retire shortly after, his favoured candidate would automatically assume the presidency.

The likelihood is that Mr Suharto and senior officers will negotiate a compromise and a smooth transition will follow, although, as the regime's opponents point out, this assumes popular support for such a deal.

While there is very little open political dissent – the United Development and Indonesian Democratic opposition parties usually support the government to maintain political consensus – the few dissidents who do speak out hold strong views.

"If Sukarno breached the constitution in one act (by being elected president for life), Suharto has done it in installments," says a dissident from his musty Jakarta office.

Mr Suharto's critics fear that he may override his better judgment in his determination to leave an indelible legacy by moving towards a more nationalistic – and risky – economic policy.

Mr Suharto's March reshuffle of the cabinet – removing three economic ministers – strengthened the hand of Mr B.J. Habibie, the energetic minister for research and technology, who backs a policy of nurturing industries such as aircraft manufacturing, shipbuilding and weaponry. Supporting these industries treads a fine line between costing Indonesia dear and accelerating industrial development.

Donors say funding to state-owned high-technology industries is running at about $1.5bn a year, a figure unlikely to decrease if plans such as the construction of 12 nuclear power stations are pushed through.

Mr Suharto's supporters say the president will back Mr Habibie but not to the detriment of the economy. They say controlling inflation, keeping a balanced budget and limiting offshore borrowing are guiding factors for Mr Suharto in setting his political agenda.

Such is the business of maintaining the status quo in Indonesia. Extending the status quo, however, to beyond his own reign will be Mr Suharto's toughest task. Accommodating the interests of the Indonesian populace, satisfying the demands of Abri officers and providing for the future wellbeing of his family could stretch the president's political skills to the full.

مكرر من التحميل

Energy shortages loom for an oil-rich country, reports Victor Mallet

Exporter will join the importers

THE INDONESIAN archipelago is famously rich in sources of energy – oil, gas, coal and geothermal and hydroelectric power – but the country faces some hard decisions about where to invest the billions of dollars that will be needed to provide more fuel for its economic development in the next century.

Oil exports have financed Indonesia's rapid industrialisation since the 1960s, and Indonesia has been a member of the Organisation of Petroleum Exporting Countries since 1962. But within the next 10 years or so Indonesia is likely to become a net importer of oil as domestic consumption grows and production falls.

Latest projections from the central bank in Jakarta show the net current account contribution of oil dropping to $930m in the 1993/94 financial year from $2.19bn in 1992/93. Oil output last year fell to about 1.5m barrels a day, six per cent below the level in 1991.

In recent years there has been plenty of exploration by the scores of oil companies operating in Indonesia, but few substantial discoveries.

Whereas the first wave of contracts awarded in the 1960s and 1970s proved to be remarkably successful – about a dozen out of 55 are still estimated to be profitably producing today – the more recent results have been miserable; of more than 130 contracts agreed since 1976, only one is thought to be both producing and making a profit.

"Clearly the industry has been spectacularly unsuccessful over the last 18 years," said an oil company executive.

It is rare in any oil-producing country to find a foreign oil company which would be so rash as to declare itself satisfied with the profit-sharing conditions of the host government, but there does appear to be a genuine concern about the high costs and low rewards of operating in Indonesia – a concern acknowledged by the government's decision to improve incentives three times in the last five years.

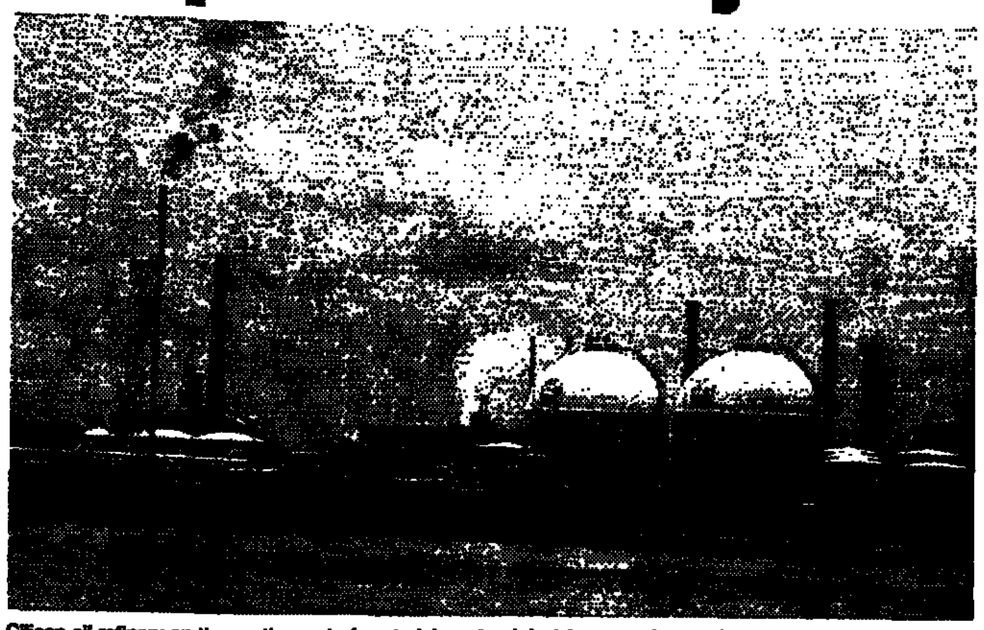
The latest round of incentives announced in September last year were aimed principally at encouraging companies to look for gas and to explore for hydrocarbons in deep water and in remote areas, but the response from the oil companies has been unenthusiastic.

A few companies closed their offices in Indonesia last year or reduced staff, and others are looking with renewed interest at other prospects in Vietnam, China, India, the Philippines and the former Soviet Union.

Existing oil producers want Indonesia to scrap its "ring-fencing" of production sharing contracts, a change which would allow them to offset costs in new exploration areas against their earnings but would also unfairly disadvantage oil companies without any current production in Indonesia.

For Indonesia, the benefits of such a step – which the authorities have shown no sign of taking – would be to promote the search for oil and gas in eastern areas hitherto only thinly explored. With wells in remote, deep water areas costing up to $30m each, it is hardly surprising that about 80 per cent of exploration at present takes place in existing production areas, mostly in the west.

Gas is as crucial as oil to the wellbeing of the Indonesian economy. The country is the world's largest exporter of liquefied natural gas (LNG), shipping about $4bn worth a year to Japan and other countries, and the government is keen to promote domestic use of natural gas to reduce local demand for oil and so free more crude for export.


Cilicap oil refinery on the south coast of central Java: hard decisions on where to invest

The largest known deposit of gas in Indonesia – and south-east Asia – is the Natuna field in the south China sea. Its size presents both opportunities and problems. Pertamina, the state oil and gas company, and Exxon of the US have yet to finalise terms on developing the giant field, and even when they do they will face daunting technical and financial challenges before being able to make the first LNG shipments eight years later.

Natuna, with an estimated 45 trillion cubic feet of natural gas, represents about half of Indonesia's known reserves. But 70 per cent of the corrosive mixture to be extracted from the wells is carbon dioxide, requiring costly separation and re-injection facilities and special corrosion resistant materials.

About 700,000 tonnes of steel would be required for the offshore facilities, and the valves and fittings for the treatment platforms would be among the largest available. The total cost of the project is likely to be more than $16bn.

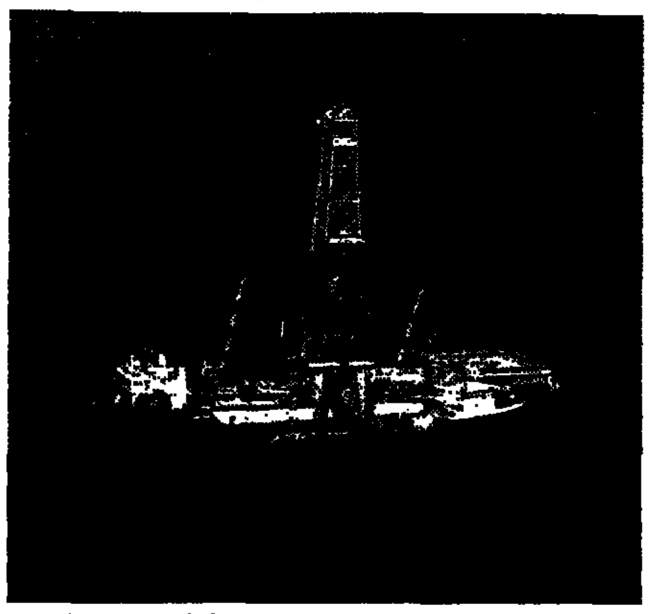
The more mundane business of developing smaller gas deposits for domestic power stations and other consumers is less daunting, but not without its own obstacles; there are at least 79 known fields too small to be exploited for export.

Oil companies are sometimes reluctant to admit they have found gas because they fear they will not be able to develop it profitably. The French company Total has made finds off Borneo, which may help to extend the life of Indonesian LNG exports, but some scattered gas deposits found elsewhere years ago have never been developed because they are too small for LNG and too far from domestic consumers to justify the construction of a pipeline.

NON-OIL/GAS EXPORTS ($bn)

DESTINATION	1988	1989	1990	1991	1992
US	1.98	2.06	2.33	2.70	3.61
EC	2.08	2.40	3.20	3.82	4.59
Japan	2.69	3.64	3.27	3.68	3.
Singapore	1.54	1.90	1.63	2.29	3.17
Others	3.33	3.92	4.33	5.60	7.14
TOTAL	11.62	13.92	14.76	18.09	22.23

Source. Bank Indonesia


An offshore drilling platform near Sumatra: explorers want a freer hand

The Indonesian government is struggling to develop a coherent domestic gas distribution policy, but Pertamina is said to be unwilling to give up too much influence to Perum Gas Negara (PGN), the state gas distributor which is expected to develop gas transmission systems. Indonesia has complex bureaucracy as well as complex geology.

"It's becoming urgent because of the high demand," said a senior PGN official. "It's very urgent and I hope that this will be fully understood by all the bureaucrats in the government."

Some steps, however, have been taken. After more than a year's delay, a pipeline from an Arco-operated field off east Java is being built to supply a new power station at Gresik near Surabaya. Future projects may include pipelines from south Sumatra gas fields south to energy-hungry west Java and north to the huge Duri field operated by Caltex – to replace oil currently burned in making steam which is injected into the reservoir to heat and lift the heavy crude.

Another strategy adopted to conserve oil has been to increase the domestic retail price of fuel – which had been below world prices. Most petroleum product prices were raised by more than 20 per cent in January, and although the authorities are concerned about the inflationary effects of the increase, further rises may follow in coming years to suppress growing demand and promote the use of gas.

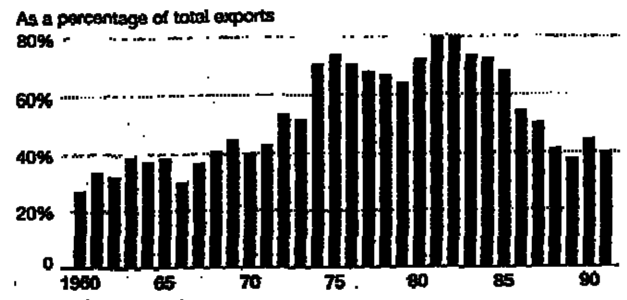
The man responsible for the sensitive task of directing energy policy is Gen I.B. Sudjana, who is said to have a background in army logistics and no experience of the oil and gas industry. He was appointed minister of mining and energy in the March cabinet reshuffle. "It came as a surprise to a lot of people, probably including the minister himself," said a leading Jakarta businessman.

One energy source he can look to with confidence, both for domestic use and for exports, is coal. Production is rising fast following the welcome given to foreign investors in the 1980s. Indonesia has 32bn tonnes of coal and lignite reserves. Exports doubled last year to 15m tonnes. By 1995, Indonesia should be producing 35m tonnes, of which about 21m will be exported.

This year, Indonesia is expected to overtake Colombia as the world's fourth largest coal exporter, behind Australia, South Africa and the US.

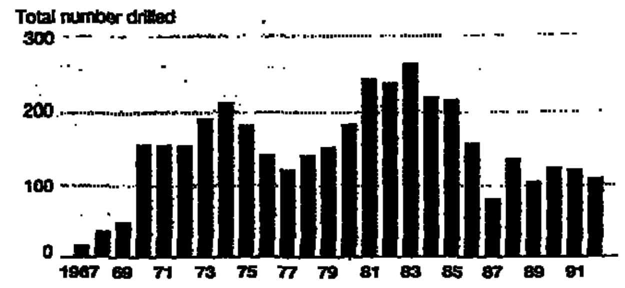
Oil and gas exports

As a percentage of total exports



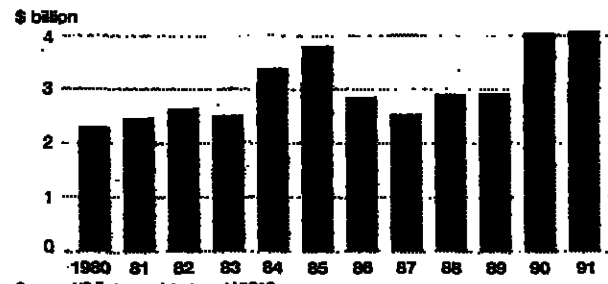
Exploration wells

Total number drilled

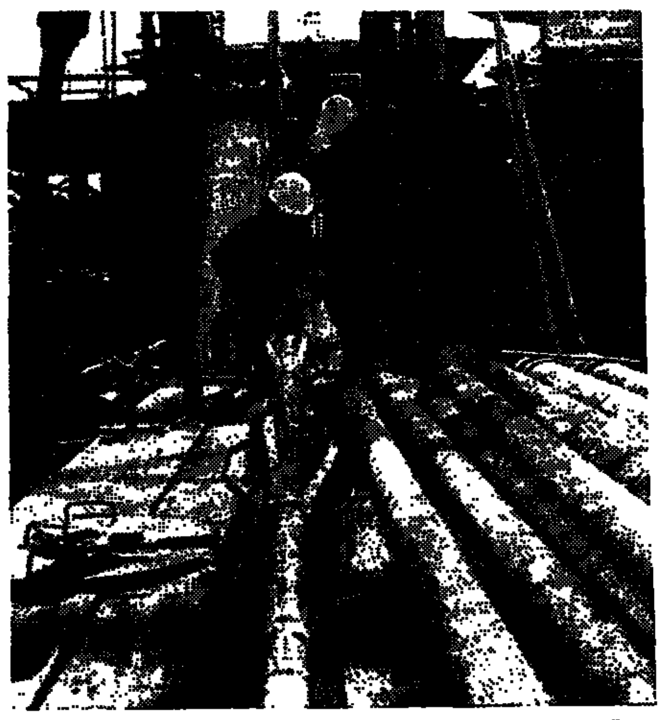


LNG exports

$ billion



Sources: US Embassy, Jakarta and MIGAS


Offshore drilling workers: finding more gas is as crucial as striking oil

Most Jakarta stockbrokers are in difficulties but look foward to better times. **William Keeling** reports

An economy that is too big to ignore

STOCKBROKERS in Jakarta, used to the good life of chauffeur-driven cars, wood-panelled offices and generous housing allowances, are facing the challenge of justifying their expense. While a few security houses claim a profit on their trading operations, brokers admit the majority of foreign and local houses are running at a loss.

Few brokers, however, doubt the long-term potential of the Jakarta stock market; a presence in Indonesia, the world's fourth most populous country, will remain a must for foreign brokerages.

"It fits in nicely with the south-east Asia package security houses offer," says Ms Jacqueline Lenterman, head of research for Jardine Fleming in Jakarta, adding that an active trading department is necessary to service the profit-making corporate finance operations.

The market is still recovering from the trauma of a boom to bust cycle in 1990-91 when the composite index crashed from 682 points to 225. The result has been a damaging loss of confidence of local investors in equities.

Company dividends only yield about four per cent, while bank deposit rates of 14 per cent are still available. Brokers complain local investors have a poor understanding of capital growth.

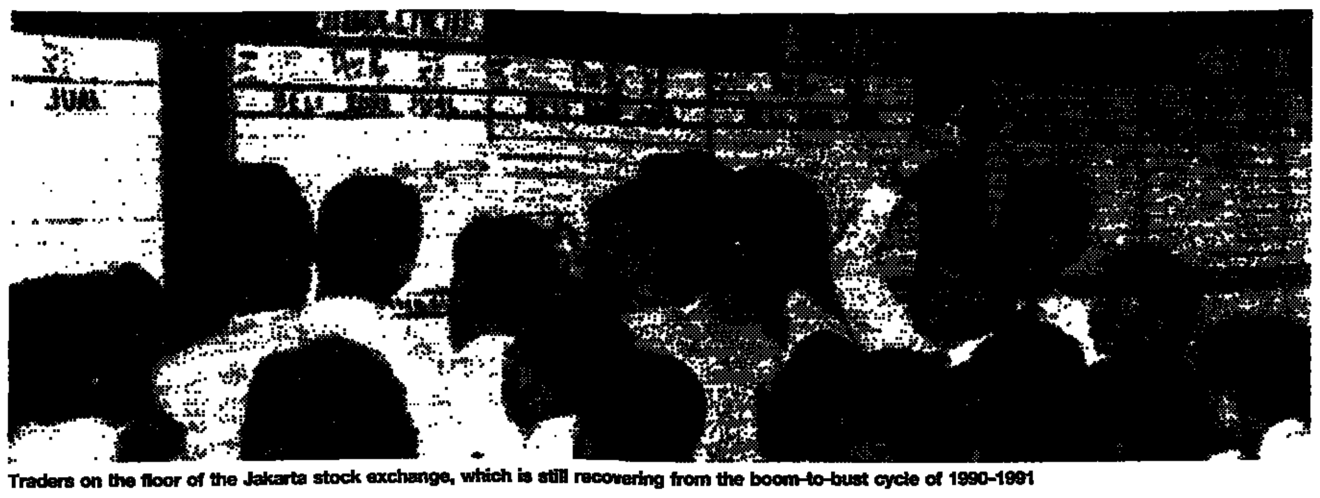
Local investors retort that they have seen the value of their shares halved in the last two years.

Foreign investors, in particular global and regional fund managers required to have Indonesian exposure, are now the market's key players in terms of trading volume and in raising finance for new issues. A foreign broker says: "We technically have a public offering in Indonesia but in practical terms we pre-place shares with foreigners."

This has, however, exacerbated the market's illiquidity as foreign institutions tend to buy large blocks of shares as long-term investments. Anthony Davies, managing director of Baring Securities Indonesia, says: "The foreigners are the long-term players, It's the locals who create the day-to-day volume which makes a market."

As a result, trading volume has remained stagnant, averaging just \$13.2m a day last year, compared with \$12.4m in 1991 and \$16m in 1990.

Although in the last two years 30 new companies have listed – bringing to 158 the total number of listed companies – the market's capitalisation has fallen from \$24.4bn in 1990 to \$19.3bn at the end of last year.



Traders on the floor of the Jakarta stock exchange, which is still recovering from the boom-to-bust cycle of 1990-1991

One way of improving liquidity would be to mobilise pension funds into becoming active participants in the market. The two principal state-funds, Taspen and Astek, held assets equivalent to \$3.2bn at the end of 1991, but only about \$200m in equities, compared withg more than \$1.9bn in time deposits.

An equally cautious approach to equities has been adopted by private pension schemes with estimated assets of \$4.5bn, insurance companies with more than \$800m in assets and five major charitable foundations chaired by President Suharto with funds of about \$1.5bn.

A new pension law, however, regulating the assets pension funds may hold should increase their holdings of equities. Brokers say the shift may be gradual but could lead to pension funds investing a further \$250m in the stock market within a year.

The government is also expected to support the creation of investment funds, which would allow small pension funds to pool assets. At least two companies are planning onshore funds, listed on the Jakarta stock exchange, investing in equities, bonds and government paper.

Other moves being considered by the government to improve liquidity include: allowing foreigners to buy more than 49 per cent of a company's listed shares, the current limit; removing capital gains tax payable by local investors; and accelerating a move toward scripless trading.

The need for an improved trading system was underlined in March when two fraudsters sold about Rp12bn of fake shares into the market. Trading in five of Indonesia's largest and most actively traded companies was suspended whilst the scam was investigated.

The forged share certificates were of exceptionally high quality, carrying brokers' stamps, correct identification numbers and passing ultra-violet tests on water-marks. More worrying, however, was an admission by stock exchange officials that the printing quality of a third of genuine share certificates is sub-standard.

The week before the scandal broke the market was in bullish mood with turnover exceeding Rp500bn. Trading volume in the following week was less then Rp100bn. But as Mr Davies explains, market illiquidity is not just a function of a poor trading system, "it's a matter of there not being enough shares around".

This stems from the willingness of Bapepam, the government's capital markets authority, to allow companies to float just a small minority of shares to the public, whilst keeping the majority in the founders' hands.

The estimated "free-float" of shares (those actively traded) for Bank Internasional Indonesia, the largest listed bank, is 11 per cent; for Gudang Garam, the dominant cigarette manufacturer, 12 per cent; for Indocement, the country's largest listed company, 13 per cent. Whilst brokers publish glossy equity lists recommending investors to buy into companies, in practical terms the stock is simply not available.

Some brokers suggest the government should insist on the majority shareholders of existing listed companies further diluting their stake and demanding that new companies coming to the market have a minimum "free float" of 25 per cent.

Such a move, however, could be counter-productive. Owners of private companies could become wary of going public if the government sets a precedent of forcing majority shareholders to sell off their holdings.

Brokers still believe Indonesia will follow the path of Thailand and Malaysia to become a major emerging market with a daily turnover of \$100m plus. They also concede, however, that deep-rooted structural problems within the market will take several years to overcome.

Private banks are paying the price for injudicious lending during the 1980s, reports **William Keeling**

Achilles Heel of the business sector

PLACED in the corner of the central bank governor's waiting room last November was the medical apparatus to measure blood pressure. It was a sign, perhaps, that the banking system, burdened with non-performing loans, was taking its toll on those assigned to supervise it.

Indonesia is still feeling the effects of financial sector deregulation initiated five years ago. By the end of 1992 banking sector assets had almost tripled to Rp123,689bn, while there has been concomitant growth – to over 200 – in the number of banks.

While the increase in availability of credit helped to develop a new generation of profitable, export-oriented industries, not all loans were so well-placed. Indeed, rather than represent the cornerstone of growth, the sector is now the economy's greatest weakness.

The problems of a rapid expansion in credit combined with ill-trained and incompetent management were highlighted last December when the government ordered the liquidation of Bank Summa, one of the country's top 10 private banks.

Owned by the wealthy Soeryadjaya family, the bank became heavily exposed to property companies in which the Soeryadjayas held an interest.

After domestic and international property prices fell in 1990/91, the bank's loans began to turn sour. When Bank Indonesia (BI), the central bank, finally stepped in, Bank Summa had Rp1,600bn in outstanding obligations and only a fraction of that in way of collateral.

While BI officials argued that Bank Summa was a unique instance, their figures for the banking sector's non-performing loans are almost certainly too low. A week before closing Bank Summa's tills, BI put the sector's bad debts at less than Rp3,000bn and the total non-performing loans (on which no interest had been paid for three months and over) at just Rp7,400bn.

Banks have shown an "extraordinary reluctance to categorise anything as a bad debt which has been collateralised or which is outstanding to people who they believe can afford to pay," says a senior donor official.

And BI appears to have shown nâiveté in believing the banks' explanations of their books: collateral may be inadequate or difficult to secure, while the practice of collateralising interest payments on overdue loans to the wealthy encourages non-payment.

Given the scale of Bank Summa's debts, the tales of graft within the five state commercial banks (which account for half the sector's assets) and the poor credit analysis of most private banks, the scale of problem loans may be substantial.

Most bankers estimate that 25 per cent or Rp17,000bn of the state banks' loan portfolios are non-performing. Estimates of the non-performing loans of private domestic banks range from six to 15 per cent of their portfolios (Rp2,540bn-Rp6,350bn). In the worst case scenario, the non-performing loans of the sector would be equal to BI's international reserves.

Of equal concern is the failure of banks to provide sufficiently against bad debt. Banking analysts say a minimum of 2.5 per cent of productive assets should be provided for non-performing loans but, in 1992, of Indonesia's top six listed banks, arguably among the country's best managed, none reached this level.

Brokers treat with scepticism, therefore, the higher net-profits reported by most banks last year.

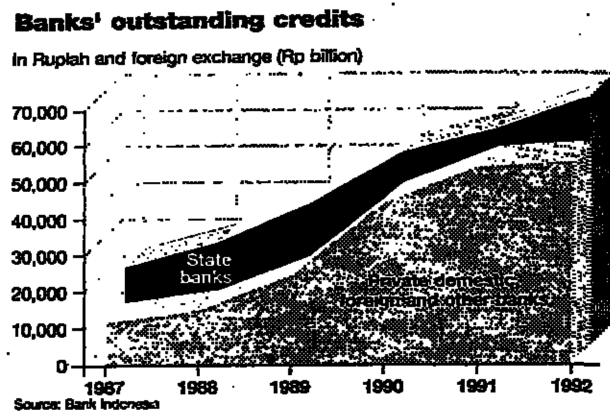
A broker explains: "If banks provided adequately for their non-performing loans, most would be running at a loss," even given the high spreads between deposit rates of 14-16 per cent and lending rates of 22 per cent and higher.

While the banking sector is fragile, however, it is not necessarily in danger of collapse. Economists point out that the relative scale of non-performing loans can be reduced by continued economic growth and natural expansion in money supply.

The top private banks are currently launching large bond issues to raise new capital in anticipation of sharp increases in their deposit base and lending portfolios this year. Whether new loans, however, can be made on a more prudent basis depends largely upon better supervision by BI and the strict imposition of banking regulations.

Banks' outstanding credits

In Rupiah and foreign exchange (Rp billion)



Source: Bank Indonesia

Newly installed cabinet ministers have expressed their determinations to pull the sector into line. Mr Saleh Afiff, senior economics minister, said in an interview that the government was "very concerned about the state banks and the banking system as a whole. We have to do something...We will take steps first to know what is the size of the bad debt."

Mr Sudradjat Djiwandono, the newly-appointed central bank governor, has a reputation as a competent, single-minded administrator and the replacement of BI's board in April has met with the approval of foreign donors.

Bankers also note that steps taken by the last government to improve banking supervision should soon begin to bear fruit. Banks were told to raise their capital adequacy ratio (CAR) to seven per cent by the end of last March, a figure reached by most private banks, and to eight per cent by next year.

BI has also been training-up new teams of auditors. While these have mostly confined themselves to auditing foreign banks to date, they should soon be delving into the disorderly books of the private banks. Ministers say they will insist on the merger or closure of poorly run banks.

Last August the government completed a reshuffle of the state banks' boards and issued a stern warning that the practice of "memo-lending" – where banks lend on the basis of clients' political connections, not their credit worthiness – must cease.

Concerted efforts are also underway to raise the capital base of the state banks, which economists estimate needs to be doubled if they are to attain the government's CAR targets. The World Bank has made a \$300m loan to inject capital into the state banks and the government has requested donor permission to convert more than \$1bn in two-step loans being channeled through the state banks into either tier-two capital or equity.

Consolidation within the banking sector is likely to be a slow and painful process. Last year the assets of the private domestic banks grew just 1.2 per cent.

A condition of the World Bank loan to the state banks is a limit on loans growth to less than 15 per cent a year. For Indonesian businesses, therefore, new lines of domestic credit are likely to remain both hard to come by and expensive.

William Keeling on the Spice Islands' exotic charms and grizzly past

Pearls in a cobalt sea

AS THE sun sets over the idyllic island of Banda, the shadow cast by Gunung Api volcano, with sulphurous fumes rising from its summit, acts as a reminder of the island's turbulent past.

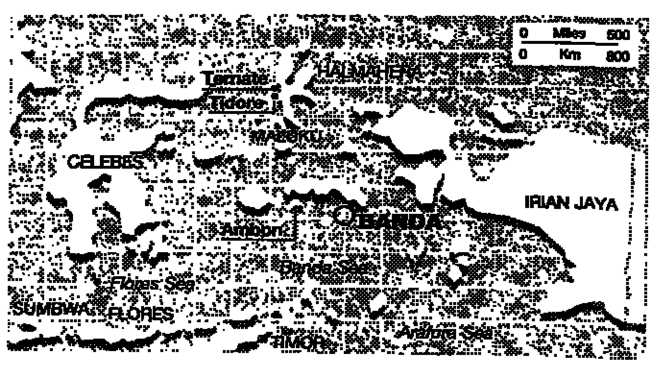
In the eastern reaches of the archipelago, Banda is one of the original spice islands which attracted the European powers in the 16th century and led to more than 300 years of Dutch colonial rule.

The spice islands – described in the florid language of guidebooks as clusters of pearls resting in a cobalt-blue sea – are now attracting their first tourists. To greet them in Banda is Mr Des Alwi, the Chief Orang Kaya (traditional island leader), owner of the Maulana Hotel and much else besides in the main town of Bandaneira.

Mr Alwi is credited by many, including himself, with rescuing the local economy. Well-connected to several key figures in the Jakarta government, he is largely responsible for the arrival of electric power, for improving the town's roads and the construction of a small airstrip.

The flow of tourists is likely to increase after a British Sunday newspaper named the Maulana Hotel as one of the world's finest. Its nomination might be considered fortunate given the lack of hot water, the miserably thin mattresses and the compulsory fare of fried fish and rice. It is a measure, however, of the island's and Mr Alwi's charm that beer, cake and a setting sun can still conjure up a feeling of blissful satisfaction.

Bandaneira town, with its balustraded colonial houses, often in a state of overgrown ruin, has an unhurried pace of life and an almost unnaturally peaceful air. Caught in one of many free moments, Mr Alwi responded to a popularly held theory that Indonesia is a Javanese empire and, by



extension, his island a colonial territory.

Jakarta, 1,500 miles to the west and two time zones away, is so distant as to rarely enter the island's consciousness, he explained. Instead, if a bête noire had to be chosen, it would be the provincial government in Ambon, an island 10 hours by boat to the north.

Five administrative officials sent by Ambon had recently been removed from Banda on the grounds of corruption, whilst an Ambon civil servant's order licensing 38 guest houses in Bandaneira had been rescinded after he intervened, Mr Alwi said.

Whilst too many guesthouses would be as damaging as too few, Mr Alwi is sensitive to criticism of protecting his near monopoly of the town's tourist accommodation. There's no pleasing everyone, he says, announcing that the profits from his hotel are ploughed back into renovating Banda's historic buildings.

And however great the authority he wields, Mr Alwi is certainly more benevolent than the Dutch who first visited Banda in 1599 and took the region by force 22 years later.

Banda and its neighbouring islands were the world's sole source for high quality nutmeg, an essential ingredient in preserving meat in the years before refrigeration, whilst to the north of Ambon lie the islands of Ternate and Tidore, the original source of cloves.

The islands were a source of considerable wealth and the Dutch employed savage means to impose their rule. In 1621, Jan Pieterszoon Coen arrived in Banda to take up residence as governor general with an army of nearly 2,000 men, including about 100 Japanese mercenaries.

Interpreting the collapse of a ceiling lamp in the governor's residence as an assassination attempt, the Dutch extracted retribution by razing villages and engaging in mass-slaughter.

In one incident 44 condemned prisoners, including eight orang kaya, were beheaded and quartered by Japanese mercenaries. An eyewitness described the execution as "awful to see. The orang kaya died silently without uttering any sound except that one of them...said, 'Sirs, have you then no mercy?'." Of an estimated 15,000 population on Banda and the surrounding islands, only about 1,000 survived the massacres.

As with the clove harvest in Ternate and Tidore, the Dutch imposed a trading monopoly over Banda's lucrative nutmeg crop with the islands' annual exports valued at the equivalent of \$30m today. But rampant corruption and a lack of basic financial accounting infected the United East India Company (VOC) monopoly and in the 1790s it went bust owing more than \$160m in today's money.

In his book Indonesian Banda, Willard Hanna, a former US diplomat in Jakarta, blames "the unworkable principle of monopoly" for the company's collapse and notes "the enormously wealthy and powerful VOC may have been a losing proposition all along".

How little times change and how hard are the lessons of history won, note current Indonesian economists. Freed of the Dutch colonial yoke, in an ironical twist of fate a new, privately-owned, trading monopoly was imposed on clove farmers two years ago.

Chaired by Mr Hutomo "Tommy" Mandala Putra, youngest son of President Suharto, the new monopoly has received moe than Rp1,000bn in mostly soft credits from state-owned banks. Not only has the monopoly been unable to service even the interest on the debt, the actual price of cloves, used in Indonesia's fragrant kretek cigarettes, received by farmers has fallen.

Banda's remaining nutmeg producers might regard themselves as fortunate their spice has insufficient value to attract a modern-day monopoly. The comfort, however, will be small with the collapse of the nutmeg trade pushing the islanders back toward subsistence farming.

Where nutmeg plantations once stood, ubiquitous cassava is now grown and Mr Alwi may be correct in seeing tourism as the only means of improving the local economy. But to succeed, the people of Banda must prevent history repeating itself. They must follow the example of Mr Alwi and, with big smile and arms spread wide, exploit the wealth of foreign visitors, not vice-versa.

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■ INTERVIEW: Dr Saleh Afiff, coordinating minister for the economy and finance, talks to **William Keeling**

Growth, equity and stability

DR SALEH AFIFF explained his government's policies in his first press interview since taking his present job. Excerpts follow:

QUESTION: Will the new cabinet change the thrust of economic policy?

ANSWER: There will be no basic changes. We base our development efforts on the triple objectives of growth, equity and stability. Stability is not only political stability but economic stability, through prudent fiscal and monetary management. Trade protection we went through in the 1970s and early 1980s. We don't want to come back to that, because that is a misallocation of resources.

At that time we became increasingly dependent on oil, because our non-oil exports were stagnating. It leads to a high cost economy.

Agriculture and food processing are two sectors which remain highly-regulated. Do you plan any changes?

These sectors have a long history. When our development efforts began in 1965, we were still battling shortages of food, not only domestically but also internationally. When we went to the aid agencies, what they had was wheat-flour. Then came the idea of importing wheat grain so we can process it here. Our first aim was to achieve self-sufficiency in rice, because we had a comparative advantage. Now we shall have to start to look again at the flour-mills. I can tell you, we are not finished yet with our deregulation programme but it has to go step by step. Consensus among ministers and also with the president takes time.

The privately-owned clove monopoly has received loans of Rp1,000bn from state banks but has been unable to service its debt. Are you planning any action?

We have had long discussions about this. It cannot be maintained as it is but you cannot stop it abruptly also. It will be phased out. It will take a couple of years to phase out.

Are you planning a deregulation package in order to set out your credentials?

Yes, I am keen to do it. Not only me but Minister Hartarto, the co-ordinating minister of industry and trade, because we know that other countries are deregulating faster. Everybody is now aiming at China. The Chinese foreign minister is going to Europe with a group of businessmen to attract investors. We have to compete with them and the only way is by improving the investment climate. There are bottlenecks in licensing, in customs and in many others.

Do you consider China and countries such as Vietnam as economic threats?

We consider them threats. We have to compete for funds which are shrinking. A couple of years ago no-one would go to Vietnam. Ten years ago China was still small. Suddenly they are in the field and we have to compete.

State-owned high-technology enterprises such as aircraft manufacture are said to receive up to Rp4,000bn a year in state finances. How exactly are they funded?

They are mostly funded from the state budget, but not that high. You can see it in the budget. We do provide them with equity, since 1976, in parallel with our other development efforts.

We also finance agricultural development, irrigation systems and the provision of social services in rural areas. The impression I get in the media is that this (government funding of high-technology) will be jumping and this (agricultural and rural development) will be left behind. This is not true.

Dr Saleh Afiff: de-regulation is not over but we shall go step by step

Are you getting a decent return on your investment in the high-technology sector?

That is an interesting point, on returns. Look, when I was in Bappenas (the national planning agency) I allocated funds for a road in Irian Jaya (connecting an isolated town with the provincial capital). You ask me what are the returns, because there were no cars at that time? But if we don't finance it, will Irian Jaya develop without an infrastructure? That is also with IPTN (the state aircraft construction company). Returns wise, of course they have lost but in the long run maybe we will gain.

How long is the long run?

They have a plan that at a certain point their equity will be fulfilled and then they should start with additional financing, not only from the state budget, but from the state banks, other banks and the private sector.

Are you concerned about state enterprises borrowing from state banks? How does this affect the budget?

The state banks' capital is separate from the budget. If the state banks finance state enterprises, it will be from their deposits. As you know the growth of deposits in the last 10 years was tremendous. They have a lot of loanable funds. State enterprises are one of their favourites because they are more sure. If something happens, then the government will take care of it.

Whilst deposits have risen at state banks, so have their bad debts. How concerned are you at the level of the state banks' non-performing loans?

I am very concerned about the state banks and the banking system as a whole. We have to do something. In economics, you decide now and the impact will be a year or so later on.

I think the banking system plays a crucial role in promoting growth. We will take steps first to know what is the size of the bad debt. Credit appraisals, training of management and the quality of services of the banks (should be improved) so they don't make the same errors.

Some bad loans have been made to politically well-connected people and many private banks are owned by politically well-connected families. Will you not have to fight a political battle to impose your will?

Those things happen and we will fight. I will fight, because if we continue on this basis it will not help the economy at all. Right now the business community are complaining that it is not the interest rate level which is a problem but the availability of credit. Why is it not available? Because they (the banks) are scared. They would rather put money into SBIs (government bonds) than lend to a business community in which they are not sure. The risk is too big, perhaps. But this will impede economic growth. And what does that mean? It means we cannot absorb the new labour force which is growing at more than 2m a year. The macro implications are quite substantial. So we have to fight.

KEY FACTS

Area	1,904,569 sq km
Population	187.8 million
Head of state	President Suharto
Currency	Indonesian Rupiah (Rp)
Average exchange rate	1991 $1=1,950.3 Rp
	1992 $1=2,029.9 Rp

ECONOMY

	1991	1992
Total GDP ($bn) [1]	116.5	126.7
Real GDP growth (%) [1]	6.6	5.7
Components of GDP (%)		
Private Consumption	55.1	n.a.
Total Investment	35.1	n.a.
Government Consumption	9.2	n.a.
Exports	27.4	n.a.
Imports	-26.8	n.a.
Inflation (% pa) [2]	9.2	7.5
Narrow money growth (% pa)	12.1	7.9
Reserves minus gold ($bn) [3]	9.2	10.5
Money market rate (% pa)	15.12	12.14
Debt [1]		
Total external debt ($bn)	80.0	87.0
Debt service ratio (%) [4]	33.0	32.9
Trade [1]		
Current account balance ($bn)	-4.1	-3.8
Exports ($bn)	29.4	33.0
Imports ($bn)	24.6	28.3
Trade balance ($bn)	4.8	4.7
Main trading partners (%) [5]	Exports	Imports
Japan	36.8	24.4
EC	12.8	18.2
US	12.0	13.1
Singapore	8.2	6.6
Korea	6.6	5.6
China	4.1	3.2
Taiwan	3.6	5.1

(1) 1992 figures are EIU estimates.
(2) Year on year percentage growth in consumer prices.
(3) At year end.
(4) Debt service as a percentage of total exports.
(5) Percentage share of trade in 1991.
Sources: IMF, World Bank, Datastream, EIU.

Victor Mallet describes the industrial revolution in East Java

Steelworks and paddyfields

WHERE once there were paddy-fields, rice farmers and water buffalo, there are now shoe factories, international pharmaceutical companies and industrial workers. The province of East Java is in the throes of an economic boom.

West Java and Jakarta have long been Indonesia's main destinations for investors, but traffic congestion and high land prices in the capital have persuaded a growing number of local and foreign manufacturers to go east.

The economy of Surabaya, the East Java provincial capital of some 3m inhabitants, has been growing at more than 12 per cent a year. East Java's steel plants are churning out reinforcing bars to meet heavy demand for reinforced concrete from the construction industry.

Property prices and the cost of labour are still relatively modest and the flat land of the rice-paddies is equally suitable for television plants and instant noodle factories. Today grey factory walls and bright green expanses of young rice alternate along the highways; the horse-drawn carts on the roads are outnumbered by cars and trucks.

Investors from Taiwan, Japan, South Korea and elsewhere – as well as ethnic Chinese businessmen from other parts of Indonesia – have joined old East Java companies such as Sampoerna, the cigarette maker established in 1913 by Liem Seeng Tee, in building their factories around Surabaya.

Other big employers in the area include Kedaung, said to be the world's largest glass manufacturer, and Maspion, which makes cookers and other household items. Agricultural processing is another important local industry; shrimp from farms along the coast are exported to the US and Japan.

Containers of cigarettes for export to Singapore and Poland can be seen being loaded outside Sampoerna's Surabaya plant. The tobacco industry, principally clove-flavoured "kretek" cigarettes for domestic consumption, is the second largest employer in the country after the government and is prominent in East Java; Sampoerna alone employs 14,000 women to hand roll its kretek products.

Employers say the stolid workers of East Java are often better suited to the monotony of manufacturing than the more entrepreneurial inhabitants of the west.

Neither Surabaya nor the rest of East Java, however, have escaped the infrastructural and social strains common to other fast-developing parts of Asia.

Road traffic is increasing in volume and its speed is falling; the supply of electricity cannot keep pace with demand; telephone lines to Jakarta are congested; prostitution is common; and there are occasional outbreaks of labour unrest and factory arson.

Most of the problems are being tackled. East of Surabaya, a multi-billion dollar complex of coal-fired power stations is under construction at Paiton, and a $1bn, 1,500-megawatt plant to be supplied by gas pipeline from a field off Java is being commissioned at Gresik near Surabaya.

Workers can be seen in the countryside assembling the pylons to carry the electricity westwards from Paiton. In the meantime, companies seem happy to use their own generators when they have to.

"East Java is going through phenomenal growth at the moment," says a banker based in Surabaya. "The margins are so good in most industries here that the extra marginal cost of producing your own power is easily containable."

The shortage of telephone lines can be frustrating, but international calls are now straightforward and the advent of cellular phones has made it easier to contact people in Surabaya and in other parts of Indonesia. One executive says he had no telephone at home three years ago; now he has two telephones in his house and a mobile device.

A toll road to Gresik is being extended, and there is once again talk of building a bridge to nearby Madura island to promote its development as a manufacturing base. Surabaya has an international airport and the city's Tanjung Perak port was recently upgraded with the completion of a new container terminal.

Not every project is a success. Surabaya's four-year-old stock exchange is regarded as moribund, and the magnificently-equipped new shipyard run by the state-owned PT Pal company under the auspices of the ebullient Mr B.J. Habibie and his research and technology ministry is seen as something of a white elephant; in the past year it has been employing American welders to build turbines for power stations rather than ships.

Such setbacks are unlikely to stop East Java's progress up the economic ladder. An international school catering for the children of the growing number of foreigners in Surabaya is thriving. Tourism is on the rise, and several new hotels run by Hilton and other international groups are due to open in Surabaya soon to provide some much-needed competition for the Hyatt.

Perhaps the most telling sign of the times – apart from the sprouting of television satellite dishes – is Sampoerna's decision to branch out into property development with the purchase of a 598-hectare site in the hills outside Surabaya: the eventual aim of the project is to build luxury housing for locals and weekend cottages for the wealthy citizens of Jakarta.

The safeguarding of the tropical forests cannot be taken for granted, says **Victor Mallet**

Rules must be right – and upheld

TWO ISSUES will decide whether Indonesia's valuable tropical forests survive in good health into the next century: are the rules on limiting timber extraction being enforced, and are the rules the right ones for Indonesia in the first place?

The answer most often given to both questions is "no", a source of concern not only to Indonesian and foreign environmentalists but also to the government and the country as a whole.

Large-scale exploitation of Indonesia's rich forests began in the late 1960s, and forest products – mainly plywood – are now the country's fourth most important export after oil, gas, and manufactured goods; in 1991 they earned \$3.7bn, nearly double all agricultural exports put together.

On paper, Indonesia's plans look reasonable enough. Of the country's land area of 193m hectares, 144m ha or 75 per cent is classified as forest, of which 66m hectares is supposed to be selectively logged, 48m preserved intact for national parks and vital watersheds, and 30m chopped down to make way for agriculture, new settlements and industry.

Implementation of these sweeping plans, however, is another matter, particularly when it comes to the logging concessions which are meant to be exploited in a sustainable manner.

In a damning recent report which shook the Indonesian establishment, Walhi, the leading domestic environmental group, not only questioned the economic value of the industry to the country but also cited convincing evidence that logging companies routinely flout forestry regulations.

Bribes are paid to forestry inspectors to encourage them to under-report the amount of timber extracted from concessions, Walhi said.

It quoted a 1990 forestry department report as saying that only 22 out of 578 concessionaires had actually followed regulations on selective cutting and replanting, and cited another official report which disclosed that only 30 per cent of log production in East Kalimantan on Borneo was reported to the government as required.

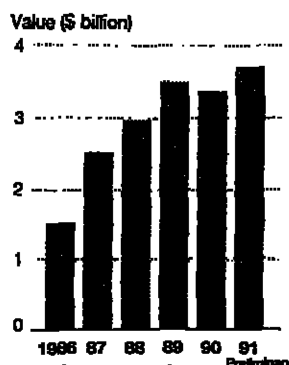
In the past, the report added, Japanese figures for the import of logs and wood products from Indonesia were far higher than the Indonesian figures for exports to Japan. Walhi concluded that the state captured only 17 per cent of the economic rent from timber in taxes and fees, compared with 85 per cent for the technologically much more sophisticated oil industry.

Although the government and big private companies are establishing tens of thousands of hectares of plantations for the pulp and paper and other timber processing industries, the programme is behind schedule and has so far done little to protect Indonesia's natural forests.

There is scant transparency in the bidding for natural forest concessions, and the logging industry is dominated by timber magnates such as Mr Mohamad "Bob" Hasan and Mr Prajogo Pangestu, who have close ties to President Suharto.

"Wood is not being harvested, it's being mined," says a foreign aid official. Another says: "The legal loggers are legally logging sometimes and illegally logging at other times. There's no end to the genius involved."

Forestry exports



Source: Government of Indonesia

Loading the logs: the speed of reafforestation is far too slow

However, the government and many foreign donors agree that big logging concessionaires like Mr Hasan – because of their financial resources and their huge stake in the future of the industry – are more likely to manage forests sustainably than smaller operators who might be tempted to "asset-strip" their concessions for a quick, short-term gain.

There is also agreement that forestry rules are contravened. "Our government doesn't have the capability to measure illegal cutting," says Mr Bambang Soekartiko, a senior official of the ministry of forestry. "We know there is excess cutting."

As for the existing system of selective cutting and replanting, Indonesian and foreign forestry experts are acknowledging that, because of their limited understanding of the biology of forests rich in valuable dipterocarp species, they might not be able to make it work even if the rules were strictly applied.

Part of the problem is that a typical forest does not contain equal numbers of large, medium-sized and small trees which would allow regular cropping as each generation reaches maturity. In fact the large, harvestable trees dominate the canopy and thereby stunt their successors which then take many years to reach the required size.

Several proposals to improve the rules for managing Indonesian forests and the enforcement of those rules are under discussion, including an extension of concession periods from 20 to 35 years, the use of costly performance bonds to ensure logging companies comply with the law, and the deployment of foreign inspectors.

Foreign donors have welcomed the appointment of Mr Djamaloedin Soeryohadikoesoemo as the new forestry minister in the March cabinet reshuffle, although some of them say his decision to adopt a new and little-understood system of forest strip-cutting is a sign of the government's desperation as it seeks save the industry from its own excesses.

The idea is to cut long strips of forest – including the smaller trees – and leave other, neighbouring strips intact, allowing the logged strip to be replanted or seeded from the untouched forest and letting in sunlight to nourish the young trees.

Forestry ministry officials say the strip system will be easier to monitor – by satellite for example – and they also believe that natural forest growth will increase from one or two cubic metres per hectare per year to between eight and 14 cubic metres. "The productivity will increase eight times," says Mr Soekartiko.

Others are sceptical, pointing out that loggers will be tempted to venture into the supposedly inviolate strips of forest to take the most valuable trees, and that the open strips might be used as farms by the settlers who always follow in the wake of the logging trucks.

Implementation of the new method has not yet begun in Indonesia. In the meantime, high demand for logs from more than 2,800 sawmills and plywood factories continues to put pressure on Indonesia's forests; the mills and factories have a capacity of more than 50m cubic metres a year, compared with the government's official figure for sustainable log output of 31m cubic metres.

One of the few hopeful signs for Indonesia, as it strives to avoid the deforestation suffered long ago in western Europe and more recently in Thailand and the Philippines, is that local inhabitants have become more vocal in their opposition to state-sanctioned logging in their homelands.

The inhabitants of Yamdena, an island on the eastern side of the archipelago, and of Siberut off the coast of Sumatra, have won reprieves for their forests, and even the logging companies of Kalimantan are said to be concerned about their own future; they may yet heed Walhi's warning:

"At the current level of deforestation, Indonesia's forests will disappear in the next 30 years."

Felling in Borneo: forestry products are now Indonesia's fourth most valuable export

■ THE RACE FOR FOREIGN INVESTMENT

China sets a gruelling pace

THE MANGY dog which ekes out a miserable existence on the steps of the Investment Co-ordinating Board (BKPM) office in Jakarta gives the potential investor an unduly dismal impression of the fate awaiting him in Indonesia.

Foreign investment applications have in fact risen steadily in the last seven years as Asian and western manufacturers take advantage of the country's abundant and modestly-priced workforce – workers sometimes earn only a dollar a day – and its large consumer market.

First it was textiles. Much of the international export industry, after moving from Japan to Taiwan and Korea, has now settled in countries such as Indonesia, Thailand and China. The value of Indonesian textile and garment exports rose to about \$6bn last year, about six times the level of 1986.

Then came electronics. Samsung of South Korea and Sony of Japan have started to export video recorders and audio systems from Indonesia. Exports of electrical appliances have doubled to about \$1bn a year from \$500m in 1991.

Indonesian officials, however, are worried. They are concerned about increasing competition for investment dollars from the fast-growing economies of China, Vietnam and India, and they are dismayed by the sharp fall in domestic investment over the last three years.

Although the BKPM's foreign investment approvals (which exclude oil and gas exploration) reached a record \$10.3bn last year, the underlying level of foreign interest in Indonesia appears to be falling; about \$3bn of the 1992 approvals total came from two huge projects – a planned oil refinery in south Sumatra proposed by British Petroleum and C. Itoh, and the Chandra Asri petrochemical plant in west Java which underwent a controversial switch from domestic to foreign investment status after the government sought to limit foreign borrowing by domestic companies.

The figures must also be treated with caution, since historically only about half of approved foreign projects by value, and a third of domestic ones, are actually implemented.

"The competition for the investment buck from China and to a lesser extent Vietnam is quite a lot more serious than we had assumed," said a foreign banker in Jakarta.

Companies complain about a number of obstacles to doing good business in Indonesia: the hopelessly inadequate legal system, excessive corruption and bureaucracy (especially in the issuing of industrial licences by provincial authorities), and the tendency of university graduates to choose cushy jobs in the civil service or the banks rather than work in industry.

The application process for foreign investors can take six months, and there are restrictions on the level of foreign ownership. An added burden for companies proposing large projects is the possibility that one of President Suharto's children will want to take a stake in the business – a disincentive for foreign creditors who might otherwise be willing to provide finance.

Shortages of electricity and clean water, a poor telephone service and other infrastructural problems common to other rapidly expanding Asian economies also cause difficulties.

"In terms of investment conditions, if you compare it to any country I think Indonesia is among the least advanced," said Mr Yohsuke Udaka, director of PT Teijin Indonesia Fiber Corp, a Japanese-Indonesian joint venture manufacturer of synthetic fiber and yarn. He compared Indonesia's relatively restricted investment regime to the incentives on offer elsewhere, including tax holidays in China and electricity rebates in Thailand.

The point is not lost on BKPM officials. "A lot of Japanese, Korean and Taiwanese investment that should have gone to Indonesia has gone to Thailand," says Mr Asril Noer, the BKPM's director of overseas promotion. "I think they are quite attractive with their incentives."

From President Suharto downwards, Indonesian officials are aware of the need to accommodate 2.5m new jobseekers each year and realise that they will have to improve Indonesia's investment image further.

A package of reforms introduced last year allows foreigners to start with 100 per cent ownership of a project if it has paid-up capital of at least \$50m, or if it is sited outside the main island of Java and the more developed parts of Sumatra.

This year, the BKPM's status was raised in the March cabinet reshuffle by the elevation of Mr Sanyoto Sastrowardoyo, the BKPM chairman, to ministerial rank. The government is expected to ease industrial licensing procedures and extend land lease titles, perhaps to 50 or 60 years from the current 30 or 35 years. It may also reduce the \$50m limit for 100 per cent initial foreign ownership.

"I think they have to give a good signal very soon," said Ms Mari Pangestu, chief economist at the Centre for Strategic and International Studies in Jakarta.

Investors and government officials are also anxious to establish component industries so that manufacturers can source more of their materials inside Indonesia – instead of keeping large stocks of imported products in their factories – and an Indonesian mission is due to travel to Japan in June to discuss the issue.

Progress has already been made. PT Teijin Indonesia, for example, uses purified terephthalic acid (PTA) as one of its principal raw materials to make polyester fibre and should soon be able to receive supplies from a new Mitsubishi PTA plant in Indonesia; hitherto it has been obliged to buy PTA on the international market and to buy the output of Pertamina, the state oil company, despite its dissatisfaction with the quality and reliability of Pertamina's supply.

Another concern which the government may seek to address is the falling level of domestic investment. BKPM figures show domestic approvals falling to Rp29,342bn in 1992 from Rp41,085bn in 1991 and Rp55,278 in 1990.

The government's "tight money" policy of restraining credit growth since 1990 is regarded as the main culprit, but nationalist Indonesians have also complained that the ethnic Chinese citizens who dominate private commerce and industry have been investing in China at the expense of Indonesia.

Such complaints smack of over-simplification. The Chinese retort that they are subjected to equally fierce criticism if they invest too much in Indonesia – on the grounds that they are supposedly monopolising Indonesian business – and point out that much of the money invested abroad is already located offshore in Hong Kong or Singapore. Furthermore, the income from profitable investments in China or elsewhere can be used to fund expansion in Indonesia itself.

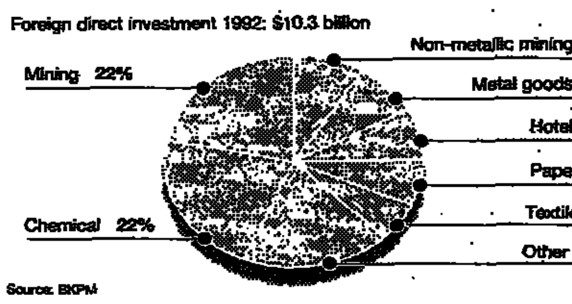
There is, however, widespread concern at the obvious emotional attachment to China displayed by ethnic Chinese businessmen from Indonesia, although when a wealthy entrepreneur flies north it is hard to tell if he is negotiating business deals in southern China or merely gambling in Macao.

With both domestic and foreign investment requiring further encouragement, it may not be long before the government acts. "We recognise that on a competitiveness rating, we are now rather behind, especially compared with China," said Mr Mar'ie Muhammad, the finance minister. "We have to improve the whole investment climate... We will do it soon."

Victor Mallet

Foreign non-oil investment approvals

Foreign direct investment 1992: $10.3 billion



Source: BKPM

NON-OIL INVESTMENT APPROVALS

Year	Domestic (Rp bn)	Foreign ($m)	FDI inflow ($m)
1987	10,449	1,520	723
1988	14,238	4,461	824
1989	19,439	4,718	1,025
1990	55,278	8,751	1,443
1991	41,084	8,778	1,960
1992	29,341	10,313	n.a.

FDI = foreign direct investment. Source: BKPM/Bank Indonesia

Uncertainty – but problems are soluble

□ Continued from Page 1

He and his nationalist, "technologist" supporters are thought to have gained influence in the sweeping cabinet reshuffle announced in March; the fear is that Mr Habibie's state-owned aircraft, shipbuilding and armaments industries will continue to consume hundreds of millions of dollars of government money each year without making adequate commercial returns. Mr Habibie argues that high technology and trained professionals will be vital for Indonesia's future industrial development.

Indonesia's economy is also burdened by public and private foreign debt – which, swollen partly by the recent strength of the yen against the dollar, has risen to more than \$85bn, and by the poor health of many domestic commercial banks.

None of these problems is insurmountable; indeed many countries would be proud if they could emulate Indonesia in balancing their budgets, repaying their foreign debt obligations on time and maintaining economic growth averaging nearly seven per cent a year for a quarter of a century.

But the uncertainty about the investment climate, about the shenanigans of the president's children, about the ambitions of Mr Habibie and the fragile state of the banking system is compounded by a lack of transparency and a lack of public debate which is out of step with the increasing sophistication of Indonesians.

Reporting by the media remains constrained by government pressure. Rumours, whether about the bad debts of state banks or the number of people allegedly killed in a recent riot at a rock music concert, are the stuff of Jakarta dinner party conversations.

Late last year, people in Jakarta learned that Moslem radicals had launched a series of attacks on Christian homes and churches in east Java and Sumatra. Many Indonesians fear such incidents could revive tensions between the Moslem majority and the Chinese minority (many of whom are Christians).

Tens of thousands of Indonesian Chinese were killed in the turmoil surrounding the fall of Sukarno between 1965 and 1967. In Indonesia as in other south-east Asian countries, a small number of ethnic Chinese citizens dominate commerce and industry and are resented for it, a situation often used to justify the economic favours granted to Mr Suharto's children and to Mr Habibie.

Today the ethnic Chinese, having been criticised for dominating local business, are being accused of disloyalty for investing in China instead of in Indonesia, although much of the money channelled to projects in China is already held offshore in Hong Kong or Singapore.

In the immediate future the task of reconciling the various groups with vested interests in the Indonesian economy will fall on the newly-appointed Mr Afiff and his ministerial colleagues; he has promised a robust pursuit of free market policies. In the longer term the stability of Indonesia still seems to depend on Mr Suharto. A former army general, he has held the country together and guided it towards prosperity since replacing Sukarno, but he is as reluctant as ever to name a successor.

Opponents of his authoritarian style believe he should act soon to arrange an orderly succession and lessen the risk of a power struggle. As one dissident intellectual put it: "What good is the success of economics or whatever else they may have achieved, if it's put in jeopardy because you never know what will happen next?"

FINANCIAL TIMES SURVEY

SOUTHERN FRANCE

SECTION IV

Thursday May 13 1993

Thousands of visitors head to the south of France each year for its stunning landscapes and sunny lifestyle. But behind the scenes the area has been torn apart by political feuds and economic recession.

A survey by **Alice Rawsthorn**

The sun, sea and politics

THE TINY fishing port of Saint-Tropez is a picturesque place with narrow streets, a yacht-filled harbour and gaudy cafés stretched along the beach where Brigitte Bardot, its most famous resident, frolicked in her prime as the star of Roger Vadim's 1956 film, And God Created Woman.

But Saint-Tropez is also a political powderkeg as Mr Alain Spada, its former mayor, discovered in this month's municipal elections. Mr Spada, an independent conservative, was forced to call elections two years ahead of schedule after all 28 of his fellow councillors resigned and a troop of Tropéziens protested against him by carrying a black-draped coffin through the streets.

Mr Spada, who was criticised by his constituents for allegedly towing away too many illegally parked cars and for banning Ms Bardot's dogs from urinating on the beach, lost the elections to Mr Jean-Michel Couve, the Gaullist whom he had ousted four years before. But the defeated mayor did at least have the consolation that Mr Bernard d'Ormale, one of his fiercest critics who is Ms Bardot's husband and a close friend of Mr Jean-Marie Le Pen, leader of the extreme right-wing National Front, withdrew his candidacy before the vote.

The Saint-Tropez storm, which provoked the village priest to tell his Easter congregation that he had "never seen scandal-mongering pushed to such lengths", could be dismissed as a Clochemerlien saga of local protest. But the theme of an iconoclastic mayor at loggerheads with his fellow politicians, and his constituents, is reflected across the south of France.

Southern France is a vast region stretching from Perpignan in the Midi-Pyrénées on the Spanish border to the city of Nice by the Italian frontier in Provence-Alpes-Côte d'Azur. Its population expanded rapidly in the 1980s as people flocked from the chilly north towards the sun, sea and sand of the coast and to the serenity of the unspoilt parts of Provence.

The region is a study in contrasts. Toulouse is a prosperous, industrial city trading on its historic strengths in aerospace and electronics. Montpellier is still building on its ancient academic laurels and its recent reputation in the arts to establish itself as a liberal technopolis. Nîmes is now trying to follow suit. Marseille is struggling to come to terms with the demise of its traditional manufacturing base in the post-colonial era. Nice is flourishing, thanks to the successful science parks hidden in the Provence hills around the city and to its traditional trading links with Italy.

The south has not been spared the pain of the French recession. Marseille has probably suffered most of all as current pressures have aggravated its longer-term economic problems. The toll of joblessness has reached 19 per cent for the whole city (double the national average) and 30 per cent in the most deprived areas.

But other cities are suffering, too. Montpellier made great progress in generating new jobs during the 1980s by capitalising on the publicity produced by the ambitious arts and architecture schemes initiated by Mr Georges Frêche, its dynamic socialist mayor, notably Antigone, the vast post-modernist development designed by Roccardo Bofill, the Spanish architect. But most of the new jobs went to outsiders. The level of unemployment is still 14 per cent.

Even Toulouse and Nice, with their well-established industrial bases, have felt the effects of the economic squeeze. Toulouse remained resilient until a year ago, but the rate of joblessness has since risen to 10 per cent, mainly due to the pressure on the small and medium-sized companies working as sub-contractors for the large aerospace and electronic groups. Meanwhile, Nice has been hit by the construction slump and by the local impact of the worldwide cuts in information technology.

Rural areas have also been affected. The grape growers of the Languedoc are still trying to adapt their crop to make higher quality wines, thereby reducing their dependence on cheap table wines. Similarly, the old family farms of the Provence hills are struggling to come to terms with the consequences of the European Community agricultural reforms.

These economic pressures could not have come at a worse time for the southern cities that spent heavily in the 1980s, notably Marseille, Nîmes and Montpellier. All three are now trying to repay the heavy debts that they amassed by initiating ambitious architectural schemes and public works programmes in the last decade.

The chilly economic climate was one of the chief catalysts for the political swing to the right across the south in this spring's parliamentary elections. Some cities, notably Nice, have long been under conservative control. But the RPR-UDF coalition also swept the board in such traditional socialist strongholds as Marseille and even Toulouse, long regarded as a bastion of French radicalism.

The trend to the right may have made the politics of southern France more homogenous in terms of party affiliation, but the political mood of the region and the relationships between individual politicians are as tempestuous as ever, as Saint-Tropez illustrates.

Even conservative Nice is still shaken by the scandal over Jacques Médecin, its long-serving mayor, who three years ago fled from France for Uruguay to avoid corruption charges. Perpignan is now spoiling for a fight between the two conservative factions, the RPR and UDF, over who will succeed Mr Paul Alduy, the veteran UDF mayor.

The opening in Nîmes earlier this month of the Carré d'Art, the spectacular museum and mediatheque designed by Sir Norman Foster, the British architect, was clouded by a row between Mr Jean Bosquet, the conservative mayor, and Mr Simon Casas, the high profile director of the city's bull ring who was fired three days after the parliamentary elections.

The bust-up with Mr Casas is only the latest in Mr Bosquet's battles. One of the running dramas of his decade as mayor of Nîmes has been his feud with Mr Frêche in Montpellier over which of their cities has the right to be *the* contemporary cultural centre of the south.

It is testimony to the tangled nature of Marseille politics that Mr Robert Vigouroux, its mayor, although nominally a socialist, has crossed swords so often with the party establishment in the Bouches-Rhône region, that his supporters suspect that the city's best chance of drumming up political support is with Mr Edouard Balladur's new centre-right government.

These political rows make for great spectator sport and add to the colourful character of the region. But the feuds and friction between different cities has undoubtedly made it harder for the south to make the most of its logistical advantage in being the geographic centre of southern Europe and the hub of the Mediterranean.

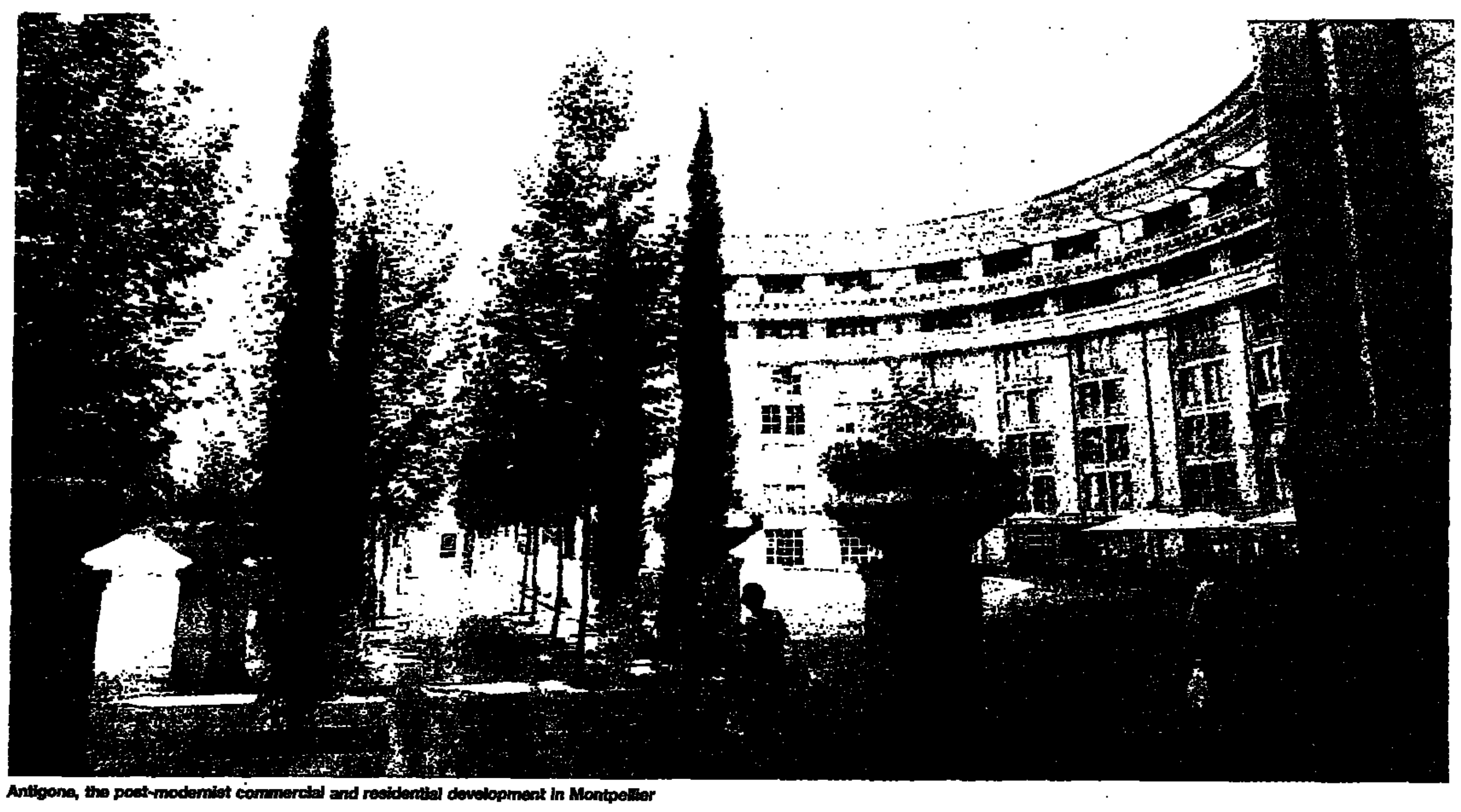
Montpellier and Nîmes have at times seemed to expend more effort and energy on battling against each other than on raising their profiles to the outside world. At one point, they even scheduled arts and literary festivals at the same time, to scupper the other's efforts. The feud between them is now officially over, but the old competitiveness still surfaces from time to time.

Moreover, the schisms within the political establishment have accelerated the rise of the extreme right-wing National Front. The influx of *pieds noirs* immigrants from the old French colonies in north Africa wrought dramatic changes to cities such as Nice, Marseille and Montpellier in the early 1960s, leaving a residue of racial tension for the Front to exploit.

Mr Le Pen failed in his bid to win a Nice constituency in the parliamentary elections and the Front's 12 per cent share of the first round of the national vote was slightly below the 14 per cent it achieved in last year's regional elections. But the Front is still a powerful force in French politics with the potential to reassert itself, particularly in the racially splintered south.

National Front extremism is undeniably one side of life in southern France, but it is the side that most of the region's visitors choose to miss.

The wealthy owners of the Cap-Ferrat villas, the young *zonards* heading for liberal Montpellier on the European hippy trail, the multinationals setting up subsidiaries in Nice, and the thousands of tourists pouring onto the Côte d'Azur beaches or into Provence hill villages come for the south's stunning landscapes and sunny lifestyle, not for its politics.



Antigone, the post-modernist commercial and residential development in Montpellier

Montpellier has become a dynamic city. But the locals are missing out

Jobs challenge for Frêche

GEORGES FRECHE is not a man to shy away from a fight. In his 16 years as socialist mayor of Montpellier he has clashed with everyone from the *gros éléphants*, who run the Socialist party, to Jean Bosquet, his conservative counterpart in the nearby city of Nimes.

So far, Mr Frêche's pugilism seems to have paid off. He has turned Montpellier into one of France's most dynamic cities, with a string of arts initiatives, social programmes and ambitious architectural schemes starting with Antigone, the post-modernist development created by Ricardo Bofill, the Catalan architect, and continuing with the new Port Marianne development.

Montpellier is at a watershed in its development. Mr Frêche's reforms have helped the city attract a steady flow of inward investment, mainly from hi-tech and pharmaceutical companies. But most of the new jobs have gone to outsiders, drawn to the south by the lure of a sunny, less stressful life. As a result, the level of unemployment has stayed stubbornly above the national average and is now around 14 per cent.

The Place de la Comedie, in the 18th century heart of Montpellier

Mr Frêche faces the challenge of trying to improve employment prospects for the locals at a difficult time when the French economy is still in a fragile condition and the swing to the right in this spring's legislative elections has left him increasingly isolated in the political sphere.

Montpellier does, at least, have a sound base to build on. Mr Frêche, a former academic, joined forces with a group of like-minded academics when he became mayor to map out a long-term strategy.

The result, according to Mr Patrick Geneste, director of the Ecole National Supérieur de Chimie in Montpellier and head of the Technopole economic development project, was a comprehensive policy that embraces every aspect of life in the city – social, cultural and economic.

Montpellier, which now has a population of 300,000, traces its roots to the 10th century when it was the crossroads for the salt trade and the pilgrim trail to St James de Compostelle. It has been renowned for its university since the 12th century and is noted for its expertise in medicine and science.

The academic tradition was still strong when Mr Frêche became mayor in the late 1970s. Today, one in six of the city's inhabitants are students. Mr Frêche realised the university could be one of Montpellier's main weapons in the battle for investment against the larger centres of Toulouse and Marseille which, unlike his city, have long historic links with industry.

One of Mr Frêche's first initiatives was to revive the artistic life of Montpellier by giving subsidies to reopen theatres, renovate museums, inaugurate festivals and even to launch an orchestra, which now absorbs an annual budget of FFr14m. He also brought in prominent figures to co-ordinate activity in particular areas, notably Dominique Bagouet, the choreographer, as head of dance.

Sport also received additional resources. "It's just as important to have a first division football team as an orchestra if you want to persuade people to come and live here," says Mr Geneste. The university was expanded. A new faculty of law and economics is under construction as part of the first phase of Port Marianne.

The most ambitious of all the Frèche schemes was Antigone, a vast residential and commercial complex covering 40 hectares of land previously owned by the army, adjacent to the 17th and 18th century heart of Montpellier. Antigone has been financed by both public and private money, but the city council has recouped its investment (in building low cost housing during the first phase of construction) by selling land to private developers.

Antigone is now completed. The Place du Nombre d'Or, the first phase, is now a lively square filled with trees and people. But the later phases are conspicuously quieter with big "To Rent" signs festooned across empty offices. Antigone's admirers see it as a paradigm of public sector development. Its critics complain the sheer scale of the Bofill design makes it oppressive. "It is the kind of place that people either love or loathe," says a city official.

However it is instructive that Port Marianne, the new development, has adopted a more eclectic approach to design by commissioning a number of different architects including Richard Meier, Christian de Portzamparc *and* Ricardo Bofill.

Despite the criticism, Antigone has undoubtedly helped to establish Montpellier as a cultural centre and, in turn, to persuade investors to come to the city. Montpellier is too small to compete for large-scale investment. It got on the shortlist for the relocation of Air Inter, the French domestic airline, only to lose to Toulouse. But it has attracted a steady flow of new companies, culminating in the arrival last year of Del Computers with 250 employees and a GEC-Alsthom joint venture with 350 jobs.

A high proportion of these jobs have gone to "outsiders", many of whom have moved to Montpellier with the incoming companies. Although Mr Frèche's supporters argue that locals have benefited from the availability of construction jobs and that the arrival of the new investors bolsters the local economy in terms of increased taxes and providing new business for services.

Moreover, the influx of new investment will help to cushion the blow of the forthcoming cuts at IBM, the US computer group which came to the city in the 1960s and is still the biggest single private sector employer. IBM plans to reduce its workforce from 4,000 to 2,800 as part of its worldwide rationalisation. Most of the job losses will come from natural wastage but will still add to the toll of joblessness.

In the meantime, the city council hopes to get to grips with the long-term unemployment problem by stimulating the local service sector, particularly tourism, which has increased healthily in recent years thanks to Montpellier's arts activities.

"We've already put Montpellier on the map," says Mr Geneste. "Now we should turn our attention to the local economy by helping existing companies to expand and to create new jobs for local people."

Nice: the changing face of a not-so-French city

Crime, prosperity and science

FROM time to time Nice-Matin, the daily newspaper for the Côte d'Azur, produces special supplements on subjects of local interest. Most of the supplements, like the rest of the newspaper, are published in French, but these days some are in Italian.

Nice, as its inhabitants are swift to say, is *not* a French city. It has belonged to France for just over a century. Previously it was an Italian state as part of Savoy, the Niçois spoke a local patois, not French, and the Côte d'Azur was called the Riviera.

For the first half of its "French" century, Nice's Italian origins were a burden rather than a boon. Marseille was, after all, well-established as the main French port for trade in the Mediterranean and with France's North African colonies. The Niçois, isolated from the newly unified Italy, were left to adapt to their new nationality.

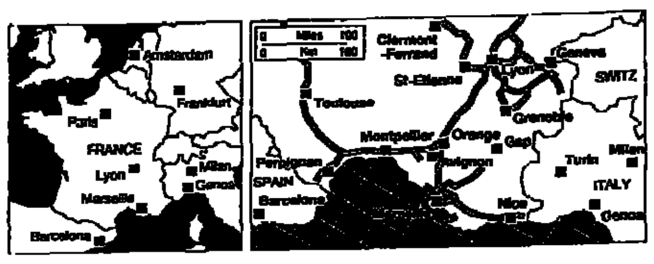
But since the 1960s, as Marseille has declined with the collapse of its old colonial trade, Nice has been free to redefine itself as a centre for the new industries of the future – electronics, information technology and telecommunications. At a time when other cities are still struggling to attract investment, Nice's business parks are packed with French and foreign companies.

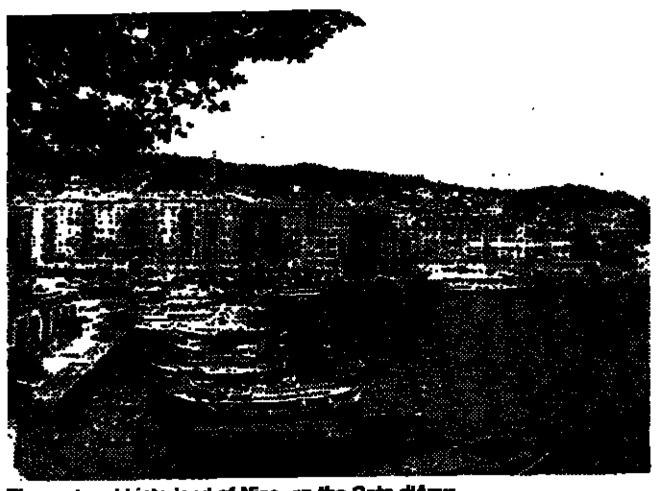
The Nice of today has a prosperous air, with the mirror glass towers in the business parks around the airport and the spruce hotels with their pretty palm trees along the promenade des Anglais. Affluent expatriates are still arriving to swell the city's 400,000-strong population and unemployment is only a little higher than the national average at 11 per cent.

But Nice also has its problems. One issue is the crime rate. Nice is now *the* centre for major crime in southern France. A glance at the front page of Nice-Matin, with its apparently endless tales of drug hauls and sinister Mafia murders, illustrates the consequences.

On the political front the city is still reeling from the disgrace of Mr Jacques Médecin, its long-serving conservative mayor and the architect of a string of successful local initiatives, notably the Acropolis conference centre and the network of waterfront highways.

Mr Médecin, whose father, Jean, was mayor before him, was the architect of modern Nice. He initiated a string of public works schemes and drummed up high technology investment to broaden the base of the local economy. But three years ago he fled into exile in Uruguay in the midst of a simmering scandal.





The port and hinterland of Nice, on the Cote d'Azur

Nice is still in conservative hands. But Mr Médecin's departure robbed it of its most authoritative political leader. This left a political vacuum which has undoubtedly helped to fuel the rise of another prominent figure in Niçois politics, Mr Jean-Marie Le Pen, leader of the extreme right-wing National Front.

Mr Le Pen is not a Niçois (he was born in Brittany) but he has turned the city into his base for the Front's assault on national politics. He lost his fight for a Nice constituency in this spring's parliamentary elections. But his anti-immigration policies, combined with his success in making the Front respectable by attracting *petit bourgeois* supporters, have struck a chord in Nice and the rest of southern France.

The image of Mr Le Pen and his sometimes violent skinhead supporters at their seafront rallies and marches is a side of Nice that local businessmen would rather forget. They prefer to dwell on the positive aspects of the city's cosmopolitan culture – its success in attracting international investment.

The linchpin of Nice's success is the Sophia-Antipolis science park, nestling 20km away in the Provence hills above Antibes. The science park was founded in 1969 but expanded rapidly in the 1980s and now includes more than 900 companies spread over 2,300 hectares.

Cordis, a products company, arrived there in 1984 as the southern European base for its US parent company. It now employs 150 people, mostly highly-skilled production workers and researchers. Mr Jacques Le Guillerm, chief executive, says the availability of skilled labour and good international air links were the chief criteria for choosing Sophia-Antipolis. The only disadvantage, he says, is the shortage of local machinery suppliers, which has raised the cost and time of new product development.

One of the latest trends in Sophia-Antipolis is the arrival of smaller international businesses. Tepar is typical. A joint venture between five multinational oil groups including Elf Aquitaine in France and Texaco of the US, it is composed of a team of seven international oil executives who are launching Pan Diesel Card, a pan-European payment card for truck drivers.

Tepar started in offices near Elf's headquarters in Paris, but looked for a cheaper location for its own small operation and the data processing unit that services it. Mr Carl Clump, chief executive, says its main requirements were the availability of multilingual staff for the truckers' help desk and good air links for the Tepar executives – both of which Sophia-Antipolis provides.

Other small businesses have chosen cheaper locations in the business centres around Nice airport. But, despite the recession, more companies like Tepar are still arriving at Sophia-Antipolis, which is now doubling in size to accommodate extra demand.

Côte d'Azur Development says that the level of interest in the sunny Riviera among prospective new investors is still so high that not only are more small business centres being built but there are also plans for a new, large-scale business park in the hills above Monaco on the border with Italy.

There are hopes of a new era of conciliation for **Marseille**

Coming in from the cold

LONG ago Julius Caesar, ruler of the Roman Empire, was waging war against Pompey. The city of Marseille, forced to choose between the two camps, plumped for Pompey.

"We chose the wrong side," says Mr Jean Pellegrino, deputy chief executive of Marseille city council. "Caesar defeated Pompey and sent his soldiers to wreak revenge on Marseille. The city was destroyed."

Mr Pellegrino, like many others involved in the politics of modern Marseille, suspects that the theme of political isolation still haunts the city today. Marseille's socialist city council was shunned by the Gaullist governments of the 1960s and 1970s. The city stayed out in the cold during the socialist administrations of the 1980s when Mr Robert Vigouroux, the iconoclastic socialist mayor clashed with the party establishment in the Bouches-du-Rhône region.

After the conservative landslide in this spring's legislative elections, Mr Vigouroux is trying to rebuild links with the region and with Mr Edouard Balladur's centre-right government in the hope that the change in the French political climate will herald a new era of conciliation for Marseille.

The city has undoubtedly suffered from its political isolation. It missed out both on the industrial initiatives of the Pompidou presidency in early 1970s and from the socialists' decentralisation policy in the 1980s. It is instructive that Marseille is one of the few major French cities without access to the high-speed TGV rail network. The TGV link comes on stream in three years.

Marseille is also the victim of its own history. The city, which traces its roots to 600BC when it was founded by the Greeks, flourished during the French empire when it was the fulcrum for trade between France and its North African colonies.

There is a threat of racial tension. Unemployment at 19 per cent is almost twice the national average

The colonial trade withered when the empire dispersed in the post-war period. The port fell into decline, as did the factories that had been making goods to sell to the colonies. The last Marseille soapworks closed three years ago. The city's problems were aggravated in the late 1950s and early 1960s by the arrival of 200,000 *pieds noirs* immigrants from the old colonies, all searching for housing and jobs.

Marseille slipped into decline. Businesses left the city to move to the tax-efficient enterprise zones on its fringes. The *pieds noirs* left, too. The population fell by 30,000 between 1974 and 1982 and by 80,000 over the next 10 years. The city, which once had nearly 1m inhabitants, is now reduced to 800,000.

The situation has been made worse by the the quarrels among local politicians, and their disputes with Bouches-du-Rhône colleagues, notably Mr Bernard Tapie, the businessman and former minister who chairs the Olympique Marseille football club.

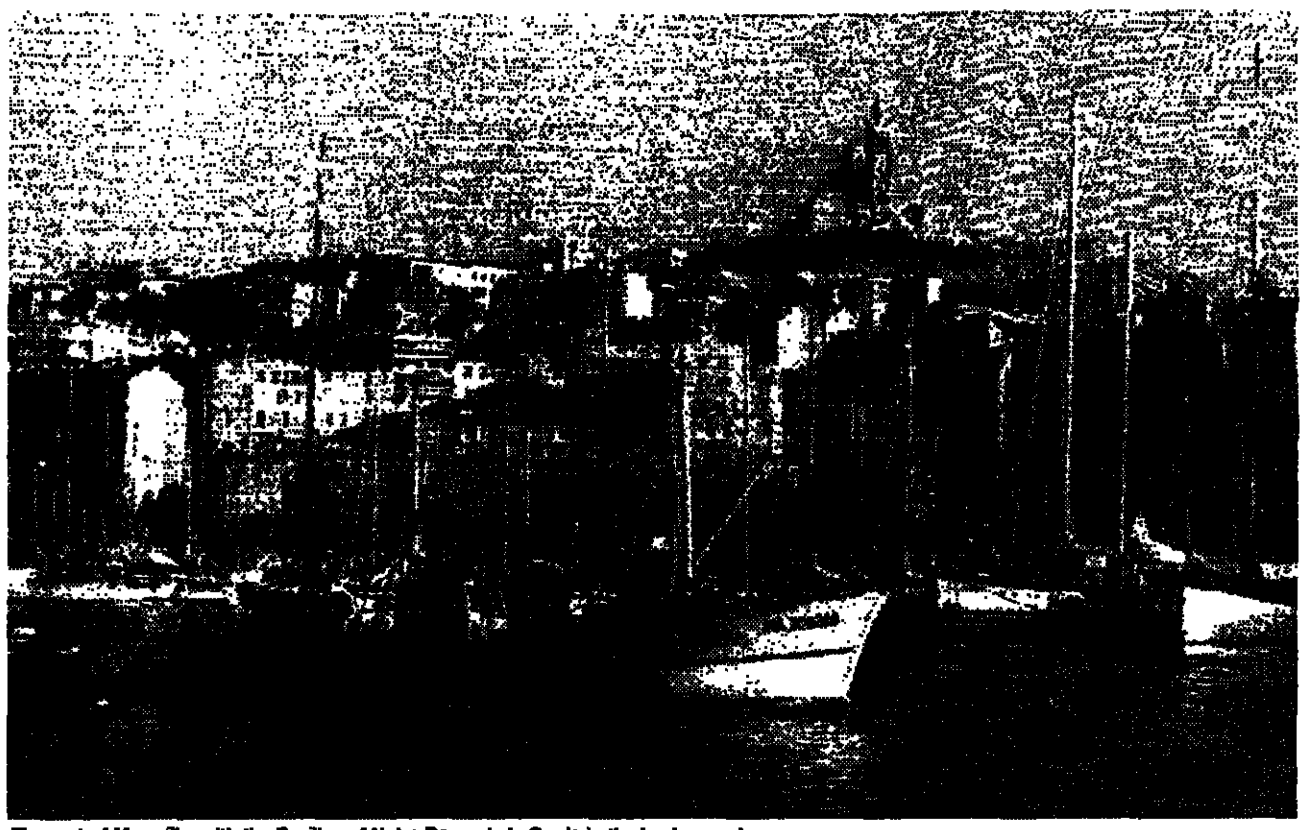
There is also the omnipresent threat of racial tension fuelled by the high rate of joblessness which, at 19 per cent, is almost twice the national average and reaches 30 per cent in the most deprived areas of the city. The picturesque, but peeling, facades along the waterfront symbolise the city's problems. Even the Mafia has fled. The main figures in Côte d'Azur crime have moved on to richer pickings in Nice.

"We've come to the end of two cycles of historic change – the arrival of the *pieds noirs* and the decline of the colonial trade," says Mr Pellegrino. "I hope we are now at the start of a new cycle."

There are some positive signs. Mr Vigouroux has managed to soothe the racial tension in the city. The Gulf War was seen as a litmus test. The mayor took pre-emptive action by inviting *all* the city's religious leaders to the Hôtel de Ville at the start of the conflict. This display of solidarity seemed to work. Marseille did not experience one instance of racial hostility during the war.

The calmer racial climate is also reflected in the fading support for the extreme right-wing National Front which peaked during the 1988 elections when it received 23 per cent of the votes. Its share slipped to less than 20 per cent in this spring's poll. The centre-right swept the board, winning five of the city's seven parliamentary seats from the left, leaving the socialists and communists with one seat each.

The city has also made some progress in resolving its financial problems. Marseille incurred heavy debts during the late 1980s, mainly due to the FFr4bn bill for two subway lines and a water treatment station. The council has since cut costs and delegated to the private sector some projects, such as the construction of an underground roadway. The level of debt has already fallen from FFr11bn to FFr9bn.



The port of Marseille, with the Basilica of Notre Dame de la Garde in the background

Marseille is now in the throes of implementing an economic regeneration strategy. Mr Jean Clavier, head of economic development, has identified a number of measures, such as more flexible planning policies, to try to dissuade companies from leaving the city. He also hopes Marseille will be able "to build on its historic strengths" in medicine and the port to attract new investment.

This is a difficult time to engineer an economic revival. The French economy is in a delicate state and interest rates are still too high, despite the recent reductions, for companies to feel confident about sanctioning new investment. The strong franc could discourage foreign companies from setting up in France. There is also, of course, tough competition for inward investment from other cities.

But local officials are cheered by the more conciliatory political mood. "At last there is a real will to forget political differences and to build a new consensus for Marseille," says Mr Clavier. "After all, the city needs it."

Toulouse awaits an upturn

Swing to right breaks tradition

THE RED and yellow Occitan flag, the symbol of the Languedoc region that dominated Southern France in medieval times, still flutters above the towers and turrets of Toulouse.

Toulouse, the centre of the Midi-Pyrenees region, has a long history of intellectual and political independence from northern France. It began with the Occitans in the Middle Ages, went on with Jean Jaurès, the 19th century dissident writer who founded L'Humanité, the communist newspaper, and continued with the left-wing liberalism that infused the city's politics until the early 1990s.

But this spring's parliamentary elections marked a dramatic break with that tradition. The centre-right coalition won a sweeping victory against the old socialist government but nowhere was the scale of the swing from left to right more extreme than in Toulouse. The city went into the elections as a socialist stronghold with seven of its eight deputies belonging to the left. The result of the elections reversed the balance of political power with the right winning all but one seat.

Smaller businesses are under pressure as big companies cut orders to sub-contractors

To some extent, this political shift can be explained by *l'effet Baudis*, or the influence of Dominique Baudis, the dynamic centre-right mayor of Toulouse. Mr Baudis, son of Pierre Baudis, another prominent local politician, abandoned his previous career as a television presenter to follow his father into politics and has since revitalised the local scene.

But the right's success really reflects the French electorate's disillusion with the left after almost a decade of government by the scandal-scarred socialists and its concern about the impact of the slowdown in the French economy, particularly on employment levels.

Until recently Toulouse, which has a population of 360,000 in the city itself and of 650,336 with its environs, was relatively resilient to the pressures on the rest of the economy. The unemployment level at the beginning of last year was 9 per cent, slightly lower than the national average.

Toulouse was, after all, sheltered by its role as a centre for aerospace and electronics. Aerospace companies converged on the city after World War 1 when many of France's foremost aircraft makers moved there as part of the government's strategy of basing militarily sensitive sectors as far away as possible from the German border. Aerospace is still the biggest single source of jobs in the city because of the presence of large groups including Aerospatiale, Matra and the Airbus consortium.

The infrastructure of research and training facilities built to service these groups has also encouraged electronics companies to move to the area, thereby creating another source of jobs from such companies as Siemens of Germany, Motorola of the US and France's Thomson.

However Toulouse has, in the past year, fallen prey to the same vicious cycle of crumbling confidence and rising job losses that has hit the rest of France. The level of unemployment is now the same as the national average at around 10 per cent.

The large aerospace groups have remained more or less intact. Aerospatiale, which two years ago opened its huge new state-of-the-art Clement Ader assembly plant, has managed to avoid any job losses among its 8,500 employees. But it was forced earlier this year to put one of its factories on short-time working and has, like its competitors, cut orders to sub-contractors.

The same pattern has been replicated in electronics, with the big companies reducing supplies from sub-contractors in order to protect their own operations. As a result, many of the smaller businesses in Toulouse and the Midi-Pyrenees region have come under intense pressure.

The future looks more promising. The local economic development units, Technopole Toulouse and the Bureau Regional d'Industrialisation at d'Acceuil Midi-Pyrenees, both report that, although companies are cutting down on investment, the area has maintained a healthy level of job creation.

In the medium term Toulouse is expected to benefit from the decentralisation strategies now being implemented by a number of state-controlled French companies. Air Inter, the domestic airline, is opening a data processing centre in the city this summer which will employ 500 people. Air France will arrive next summer with another 500 jobs.

The long-term outlook for the aerospace and electronics sectors is also encouraging. The critical question for aerospace is when the worldwide market will recover from three years of recession. Aerospatiale says that, so far, there is no real evidence of improvement apart from a slight increase in orders from regional airlines, which led the industry into the slump and so *might* lead it out.

Meanwhile, many of the local electronics companies are small to medium-sized concerns operating in specialised, value-added niches of global markets with strong growth potential.

ATG Gigadisc is typical. It is a medium-sized business with 120 employees and is a leading European player in the market for optical discs. ATG managed to maintain sales of FFr109m in 1992, but was forced to reduce its staff by about 10 people when demand declined. Business has since picked up, particularly in the US, its main export market, making the company more confident about the future.

Just as its strength in aerospace and electronics helped Toulouse to prosper in the buoyant economic climate of the 1980s, so the local politicians hope that those sectors will haul it out of the doldrums in the early 1990s – whatever the change in the political complexion of the city.

Sharon Stone with Michael Douglas and Jeanne Tripplehorn in Cannes for the premiere of Basic Instinct

The annual Cannes festival

Film fun goes on

IT was back in 1939, on the eve of World War II, that the French government decided to launch an international film festival in the sunny Mediterranean town of Cannes.

The outbreak of war forced the government to put its plans on ice. It was not until 1946 that the newly formed Centre National de la Cinématographie staged its very first Festival International du Film in the old casino in the heart of Cannes.

The festival was more like a movie club than an international competition, given that only 300 people attended and every film went away with a prize of some sort or other. The organisers were also chronically short of cash. The festival, intended from the beginning to be an annual event, was scrapped in 1948 and 1950 because of financial problems.

But the organisers determined to continue. In 1949 they launched the Palme d'Or to be given to the film deemed to be the very best in the festival by a specially selected jury of film makers and actors. The first winner was Carol Reed's The Third Man starring Orson Welles.

Cannes has since gone from strength to strength. The festival has been clouded by controversies from 1968 when it was cut short by *les évènements*, the student riots, in Paris, to 1990 when screeching teenagers invaded the town to mob Madonna, the pop star, when she arrived, clad only in a cream satin Jean-Paul Gaultier corset, for the premiere of In Bed With Madonna.

But the business aspect of Cannes has become bigger and bigger. The number of delegates has grown year after year from the paltry 300 at the first festival in 1946 to a daunting 19,905 last year.

Star spotters are often doomed to disappointment. The big stars jet in for their premieres, as Madonna did in 1990 and Sharon Stone last year for the opening of Basic Instinct. But the producers prowling around the bars of the Carlton or the Martinez, or power-lunching on the café terraces along the boulevard Croisette, are more interested in counting digits on their contracts than in signing up "wannabe" starlets on the beach.

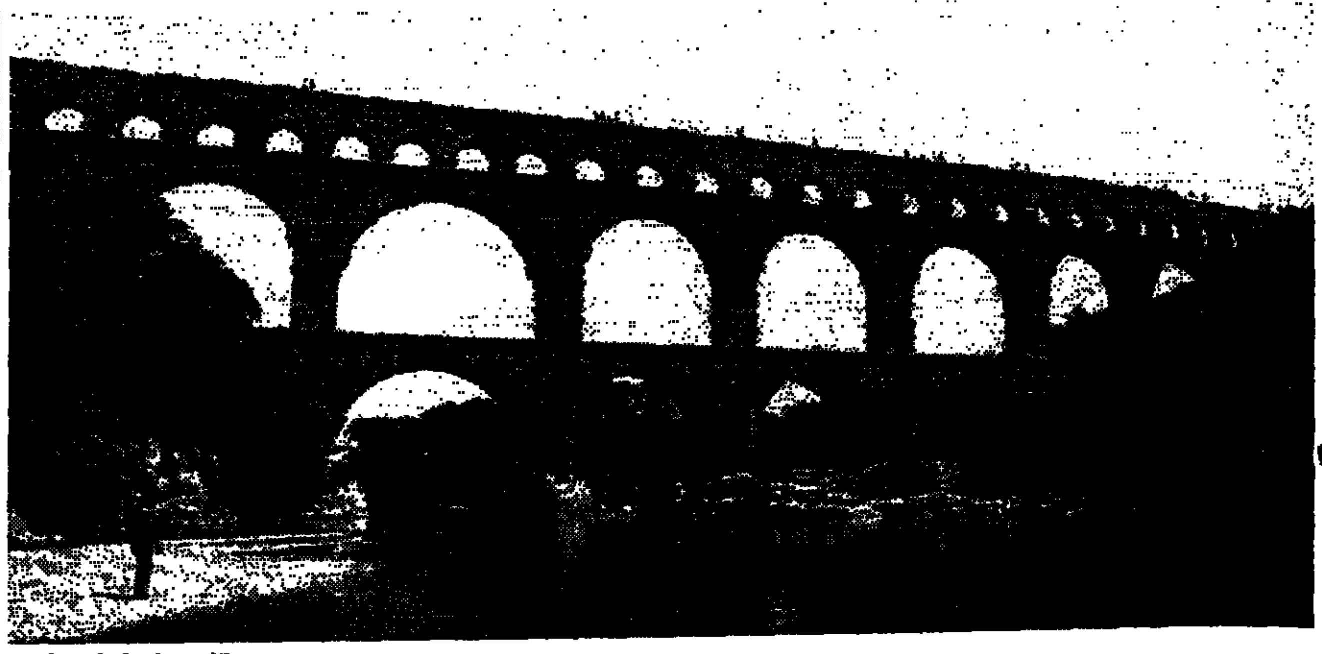
Cannes may have lost its lustre over the years, but it is still *the* annual film event for the media. The number of journalists and photographers has risen steadily from a respectable 700 in 1966 to 3,545 (from 1,945 different publications or television programmes in 54 countries) last year.

The swanky suites in the Carlton Inter-Continental and the Martinez are booked solid for festival week years in advance. Even lesser hotels are so packed that most of the big producers and studio executives billet their lackeys in their villas in Cannes itself or in the hills around the town. Some delegates "commute" daily to the festival from nearby Antibes, or even Nice.

The 1993 festival is now in full swing. The hotels are as busy as ever. The jury is in session, chaired by Louis Malle, the French film maker, aided and abetted by Gary Oldman, the British actor who starred in Francis Ford Coppola's Dracula and Emir Kusturica, the Bosnian director, whose Stories of the Beehive won the Palme d'Or a few years ago.

As for the Palme d'Or, more than 20 films have entered this year's competition. The shortest odds are on Kenneth Branagh's Much Ado About Nothing, Jane Campion's The Piano, and the Taviani brothers' Fiorile to win.

Star spotters are often disappointed, but the business aspect has become bigger and bigger



The Pont du Gard near Nîmes

Nîmes: 'a vital, vibrant city - not a museum'

The mayor's monument

JEAN BOSQUET is not unaccustomed to the frills and formality of opening ceremonies, having presided over dozens in his dual role as chairman of Cacharel, the French fashion company, and mayor of Nîmes.

But the opening earlier this month of the Carré d'Art, the FFr400m museum and library designed by Sir Norman Foster, the British architect, was a special event even for Mr Bosquet. The Carré d'Art, which stands opposite the Maison Carrée, an exquisite Roman temple, is the most ambitious of all the architectural schemes initiated by Mr Bosquet in his decade as mayor.

When Mr Bosquet was elected, Nîmes was a firm fixture on the Mediterranean tourist trail, thanks to its Roman amphitheatre, the Maison Carrée and its labyrinthine 18th century centre, but it was also a sleepy city with a dwindling population.

The new mayor decided to put his city, and himself, on the map by making the most of the new urban planning powers devolved down to regional government by the socialists' decentralisation strategy. Just as President François Mitterrand embarked upon his *grands projets*, the monumental modern architectural schemes in Paris, so Mr Bosquet launched his own *petits projets* in Nîmes.

Jean Nouvel, the futuristic French architect behind the L'Institut du Monde Arabe in Paris, was commissioned to build the ship-shaped Nemausus public housing project. Vittorio Gregotti designed the Costières sports stadium. Philippe Starck, the funky Paris designer, dreamed up a new city insignia and a bus stop.

But the most spectacular scheme of all is the Carré d'Art. It is Sir Norman's first commission in France and one of his few buildings in an urban, rather than a rural, context. He conceived it as a contemporary counterpart to the Maison Carrée. The Carré d'Art is a thoroughly modern monument in glass and steel, modelled on the columns of the original temple.

Inside the Carré d'Art is Nîmes' 20th century art collection, which includes works by Picasso, Richard Long, Julian Schnabel and Marcel Duchamp. It also doubles as a library, thus fulfilling the same role for Nîmes as the Centre Georges Pompidou for Paris.

There are other *petits projets* still in the pipeline, notably the construction of the new university (to accommodate 4,000 students) beside the 17th century Fort Vauban. But the emphasis of Mr Bosquet's policy is now moving towards a long-term urban planning initiative intended to redefine the entire city, by reinforcing its boundaries and fusing the ancient and modern aspects of its architecture.

"It's a question of coherence," says Mr Joseph Juvin, head of Nîmes Agence d'Urbanisme. "We want Nîmes to be a vital, vibrant city, not a museum."

This linchpin of this policy is the creation of a *grand axe*, a central axis cutting through the city from the Jardins de la Fontaine in its ancient centre to the tiny villages on its fringes. The architect is the same as for the centrepiece of Mr Bosquet's *petits projets* – Sir Norman Foster.

The region's museums and art galleries embellish its glamorous image

Côte d'Azur: take a sentimental journey

TRAVELLING around the Côte d'Azur conjures images of Brigitte Bardot sunning herself in Saint Tropez during the 1960s, or the packed pavement cafés of coastal towns in the 1990s.

But there is another aspect to the Côte d'Azur, the tiny museums and art galleries tucked away in the Provençal hills, or clinging to the cliffs along the sea. These are the places that give a glimpse of the south before the Bardot-boom and of the serene lifestyle that attracted some of Europe's most famous artists – such as Renoir, Matisse and Picasso – to the region.

Musée Renoir is typical. It is a sturdy stone house perched in the hills above Cagnes-sur-Mer where the painter, Pierre-Auguste Renoir, lived with his wife and three sons from 1909 to 1919. The house and its contents have been left intact. Renoir's wheelchair is still in the studio, as are his easels, brushes and frames. The walls are hung with his paintings and those of friends such as Bonnard and Dufy.

The garden is lovely, with ancient olive trees straggling down the hill and a view that stretches to the Cape of Antibes. But the real appeal of the museum, as with all France's *musées sentimentaux*, is that it is impossible to visit without imagining what it was like when Renoir himself lived and worked there. (Musée Renoir, avenue des Collettes, Cagnes-sur-Mer. Tel: 9320 6107.)

If Renoir was content with a simple rustic house, Pablo Picasso's taste was a little more opulent. Picasso spent a long part of his life in the south, but one of the best collections of his work is at Musée Grimaldi-Picasso on the Antibes waterfront, where he lived for the summer and autumn of 1946.

The room on the ground floor where the baroness entertained her lovers

Musée Grimaldi-Picasso is a pretty old stone castle with stunning views onto the sea. The collection, although not as impressive as in the Musée Picasso in Paris, has a decent selection of oil paintings, ceramics and sculpture, most of which were completed while Picasso lived there. (Musée Grimaldi-Picasso, place Mariejol, Antibes. Tel: 9334 9191.)

A little further along the coast from Antibes in the village of Biot is the Musée National Fernand Léger, the fruit of a donation by his wife, Nadine, to the French government, which houses one of the most extensive collections of Léger's work.

The museum, contains many of Léger's most important paintings. The building, a modernist edifice set in rolling lawns and embellished with Léger's own brightly coloured friezes, is spectacular. The collection is illustrated by sketches and photographs which give a glimpse of the gregarious artist's life. (Musée National Fernand Léger, chemin du Val de Pome, Biot. Tel: 9365 6349.)

The Côte d'Azur also houses a number of private collections. Fondation Ephrussi de Rothschild on Cap-Ferrat has an air of the Hollywood hills with its motley assortment of antique treasures – a Grecian column here, a Gothic doorway there – and its candy-coloured Italianate facade.

The house was built at the turn of the century as a home for the baroness' collection of art and furniture, which ran from Tiepolo ceilings to Louis XIV chairs, Beauvais tapestries, Fragonard paintings and the tiny circular room on the ground floor where she entertained her lovers. (Fondation Ephrussi de Rothschild, Cap-Ferrat. Tel: 9301 3309.)

A very different collection is lodged high in the hills near the village of Saint-Paul-de-Vence at Fondation Maeght. This is the gallery bequeathed by the Maeghts, a family of Paris art dealers, to house their private collection and temporary exhibitions which include some of the best-known names in modern art, including Giacometti, Miró, Arp and Zadkine. (Fondation Maeght, 06570 Saint-Paul-de-Vence. Tel: 9332 8163.)

The village is also home to La Colombe d'Or, the famous restaurant, where Picasso, Braque, Calder, Miró and Chagall used to eat, paying for their food with their work. The restaurant, now run by the fourth generation of the founding Roux family, has been left with an art collection – a Leger frieze along the terrace, Braques and Picassos hung between the tables – which would be the envy of many museums.

French foodies are wont to say that La Colombe d'Or's food is not as good as it used to be – but they tend to say that about almost every restaurant. Its tables quake under the weight of hearty Provence fare and it still scores a respectable 12 out of 20 in the snooty Gault Millau guide. (La Colombe d'Or, 06570 Saint-Paul. Tel: 9332 8002.)

Visitors to Saint-Paul should also look in on the Chapelle du Rosaire in the neighbouring village of Vence, a tiny church designed by Henri Matisse, who believed that it included his finest pieces of stained glass. (Chapelle du Rosaire, Avenue Henri Matisse, Vence.)